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# Accountancy

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*Services to the Private Company*

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*Control of Capital Expenditure*

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*Education Report Attacked*



THE JOURNAL OF
THE INSTITUTE OF CHARTERED ACCOUNTANTS
IN ENGLAND AND WALES

JULY 1961 PRICE 2s. 6d.

# The Institute of Chartered Accountants
## in England and Wales

*Incorporated by Royal Charter, May 11, 1880*

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# Accountancy

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# Professional Notes

### Renewed Restraint

IT IS BOTH puzzling and disappointing that, despite a Budget virtually in balance overall and considerable measures of credit restraint, there is every reason to suppose that further action will be required if we are to escape, at best, a continuance of the balance of payments troubles on current account which emerged last year and have been intensified by the withdrawal of hot money. There is some rise in exports this year, and it is reasonable to suppose that the marked restocking in 1960 will not be repeated; but the domestic position is very far from satisfactory, and it is confidently expected that the Chancellor will take early action to restrict demand. The reasons are fairly clear. The past year has produced a rise in incomes of some 9 per cent. against one in production of around 2 per cent. As a consequence retail prices have already risen by 3 per cent. Even this does not fully reflect the effects of rising salary and wage rates and shorter hours of work, and the expected fall in company profits and dividends will do little to offset the rise in the wage and salary bills. The Chancellor's concessions on surtax may even already be encouraging some additional spending. The internal picture is very similar to that of 1956/57, but the external balance is now much worse than it then was and the need for action more apparent. The question is, what action?

No ideal solution of our problems can be found. But it is clear that total exports must be raised and/or imports cut. It is almost equally clear that there can be no escape by imposing fresh restrictions on imports. This would not only reverse the policy of liberalisation but fly in the face of a movement towards greater transferability

of currencies and diminution of customs barriers, which has made possible an expansion in world exports and which is likely to continue. Invisible imports in the form of government spending abroad can be cut, but there is little hope of an early revival in invisible exports, especially as they have fallen largely because other countries—possibly to their economic disadvantage—have set up services previously supplied by Britain. At home there is some excess capacity, but this is almost entirely in fixed capital—labour is already in short supply nearly everywhere. Internal demand must certainly be restricted and, if this is done by raising prices, the resultant demands for increased incomes must be resisted. Industrial costs have already risen too far, and the brunt of this must fall on profits except in so far as increased efficiency in the use of resources other than labour can offset the rise in wages and salaries. It is very generally assumed that the measures adopted will be the full use of the 10 per cent. rise in excise duties, with or without some increase in purely monetary controls. Any flat rate attack on the general level of incomes, including the lowest, is to be avoided; and action should be immediate if it is to be effective in removing the fears, commonly held abroad, of a fresh sterling crisis in the autumn. Granted that the measures taken here are considered suitable and sufficient, there is reason to suppose that credit from international sources will not be withheld.

Whatever short-term measures are taken, however, the Government needs to tackle our fundamental weakness: restrictive practices on all sides of industry. Most of us must give more for our money if the economy is to be placed on a solid basis. We need to be more competitive both abroad and at home.

**Birthday Honours**

WE HAVE PLEASURE in congratulating five members of The Institute of Chartered Accountants in England and Wales who figure in the recent Birthday Honours. Mr. Basil Smallpeice, B.COM., F.C.A., becomes a Knight Commander of the Royal Victorian Order.

*Sir Basil Smallpeice, K.C.V.O., B.Com., F.C.A.*

Two members become Commanders of the Order of the British Empire: Lt.-Col. R. M. Chapman, T.D., D.L., M.A., J.P., F.C.A., for political and public services in the North of England; and Colonel R. D. Sherbrooke Walker, T.D., D.L., F.C.A., the Vice-Chairman of the Army Cadet Force Association.

Among the new Officers of the Order is Mr. L. F. Cheyney, F.S.A.A., Secretary of the Institute of Municipal Treasurers and Accountants. Mr. W. D. Austin, F.C.A., Works Accountant at the Springfield Works, Preston, of the United Kingdom Atomic Energy Authority, receives the M.B.E.

**The Tobacco Monopoly**

AFTER FOUR YEARS of investigating, the Monopolies Commission has reported on the tobacco industry. In essence this is a report on Imperial Tobacco, which supplies about two-thirds of the market in cigarettes and tobacco in this country, although it has of late been losing ground slowly to its principal competitor, Gallaher. Imperial's interest in that company once constituted absolute control, but has now declined to 42½ per cent. As to the conduct of its own business the Commission absolves Imperial from making or attempting to make extravagant profits. Further, it finds that, so long as competition between manufacturers in the cigarette and tobacco industry continues on the present scale, resale price maintenance is not against the public interest.

The Commission is, however, less happy about the standard of efficiency achieved, evidently feeling that, with more effective competition, greater efforts might have been made to reduce costs and perhaps prices. It is primarily for this reason that it makes what has been seized upon as its principal recommendation: that Imperial should dispose of its holding in Gallaher, which it regards as a partial insurance against the expansion in Gallaher's share of the market which looks like continuing. The only other major recommendation is that Imperial should abandon the rebate granted to retailers who devote not less than 50 per cent. of their shop advertising to Imperial products. There was a time when this was held by some retailers to be very objectionable, but it is understood that the rigid application of the rule has been somewhat relaxed. In any case Imperial appears disposed to accept this recommendation without question, but not the proposal that it liquidate its Gallaher investment. If, as seems probable, the Board of Trade accepts the recommendation and the Government decides that it must be implemented, Imperial will be exposed to really effective competition, the more so because a third group which should prove viable is being formed. The original purchase of control in Gallaher was made to keep out an American competitor, who might still be interested. Before the recent price fall the holding was worth about £42 million. The best suggestion made to date seems to be that the shares should be offered to Imperial shareholders on terms including a considerable bonus element, and the proceeds used, as occasion offers, to reduce the huge debt Imperial has had to incur to finance the greatly increased tax on all its tobacco out of bond. If this were done, while any share in further Gallaher expansion would be lost to the company, the actual fall in revenue might be quite moderate.

In a minority report Professor G. C. Allen dissents from the majority findings on resale price maintenance. He considers that the weight of evidence shows that resale price maintenance in the tobacco industry is against the public interest and should be abolished; that the majority contention that the amount of any possible price reduction would be very small is debatable; and that the present habits of purchasers have been moulded by the existing restrictive arrangements.

**Mr. Garrett's History of the Society**

MR. A. A. GARRETT'S long-awaited *History of the Society of Incorporated Accountants, 1885–1957,* has just been published by the Oxford University Press: a subscription form is enclosed with this issue.

Mr. Garrett, who joined the staff of the Society in 1909 and was its secretary for thirty years until his retirement in 1949, is uniquely qualified to write its story. His record of those seventy eventful years is more than merely factual. As he surveys the ever-changing economic and financial problems constantly confronting accountants, shows the impact of additional legislation, reports the evidence given before official bodies, his book becomes an essential part of the whole history of modern accountancy.

The last chapters cover the integration of the Society with the Chartered Institutes, and an appreciative Foreword is contributed by the immediate past-President of The Institute of Chartered Accountants in England and Wales, Mr. S. John Pears, F.C.A. In the words of Sir Richard Yeabsley, C.B.E., F.C.A., the last President of the Society and now a member of the Council of the Institute, whose review appears on page 448, this is "a book which many will want to read and treasure."

**Marginal Costing**

THE INSTITUTE OF Cost and Works Accountants is shortly to issue an authoritative publication on the "vexed question of marginal or direct costing." Its President recently gave his opinion that no one subject had generated more heated discussion among accountants, but he thought that the marginal technique, in its proper context, was essential if one was to see the picture clearly. On the other hand, costing and pricing on a marginal basis, while tempting in conditions of low volume, were dangerous, and had led firms and industries to ruin when allowed to get out of control in unskilled hands. Even direct labour could become virtually a fixed charge within fairly wide limits, and as a result the volume factor in costs assumed increasing importance. It was still very difficult to sell so much at a loss that eventually there was a profit!

The advent of computer techniques would make available more information about the relationship between fixed and variable costs. That fact, and the tendency of fixed costs to rise as a result of mechanisation and automation, meant that this field was one of the most fertile in which to pursue studies for the benefit of industry.

**Education for Accountancy—British and American**

A NEWLY PUBLISHED American report on *Education for Accountancy* is likely to be helpful in the discussion now going on on this subject in the United Kingdom. The report was prepared by Professor Harry Simons under a grant made by the California State Legislature to the University of California for research in public accounting. It embodies the answers of 1,237 accounting graduates of the School of Business Administration of the University of California to a series of questions on their educational background and present occupation. Graduates were asked to indicate the factors responsible for their choice of accountancy as a field of concentration. They were asked to appraise the adequacy as well as the usefulness of their training in the light of their subsequent experience, and to discuss the extent to which their aspirations had been realised.

In beginning from the point of view of the student, *Education for Accountancy* at least avoids the criticism of the Committee on Education and Training of the Institute of Chartered Accountants in England and Wales, made by Professor David Solomons on a later page of this issue, that it "included not a single member of the Institute whose daily work is primarily concerned with education." The ninety-six tables and two charts in the American report will no doubt be the envy of British accountants thirsting for knowledge of the educational aspect of their profession.

**Sir Alan Rae Smith, K.B.E., F.C.A.**

READERS WILL LEARN with deep regret of the death of Sir Alan Rae Smith on July 11, at the age of 76, after a long and distinguished career of public service.

Qualifying with honours in 1909 he entered the office of Deloitte, Plender, Griffiths & Co., retiring in 1956 as senior partner. During the 1914–18 war he served as a major in the R.A.S.C. and became chief accountant of N.A.A.F.I., being largely instrumental in its rapid and enormous expansion.

Between the wars the Government made many calls upon his outstanding abilities as accountant and negotiator. Sir Alan was knighted for his services as chairman of the Colonial Development Advisory Committee from 1935–40. He was also chairman of the 1939 conference on War Damage to Fixed Property. During the war he was financial adviser to the Ministry of Shipping and later to the Ministry of War Transport, and was awarded the K.B.E. in 1948. He was the financial adviser on the formation of the National Dock Labour Board in 1941 and served as the Government nominee on the Arbitration Tribunal that determined the sum payable by the Treasury to Courtaulds when its American subsidiary was taken over.

Among his other activities Sir Alan advised the Home Secretary at the time of the revision of London taxi fares in 1950 and 1951, and he was hon. treasurer and chairman of the finance committee of the Royal Institute of International Affairs, as well as a director of the Savoy Hotel.

**Financing Small Industry**

THE OUTSTANDING POINT in the annual report of the Industrial and Commercial Finance Corporation for the year to end-March last is the establishment, for the sixteen years of the corporation's history, of a record of £9.5 million in the annual figure of new business. While the expansion in industrial investment must have helped in achieving this result, Lord Piercy, the chairman, attributes it mainly to greater efficiency in making known the facilities offered and, in particular, to the development of the branch organisation. Leaving on one side the advances made to concerns too young to have a record of audited accounts, it is possible that accountants might also play a larger part in seeing that their clients are aware of these facilities. It is also relevant that, while the Corporation was approached by 599 would-be new customers, it made only 131 actual offers of which, up to the end of the financial year, only 77 resulted in new business.

As to the distribution by size of the amounts advanced, 43 of the offers made to new customers were of sums between £5,000 and £20,000, which is close to the experience throughout the life of the undertaking, while of the total amounts outstanding—not the same as original advances—at the year-end 16 per cent. were in sums of £10,000 or less, the average amount in this group being just over £6,000. The minimum amount of £5,000 has been unchanged from the start in 1945, and, since the share of the small borrower in the total advanced has not changed, it seems that the average real value of advances must have fallen with the drop in the value of the currency. That is to say, help is being given to even smaller enterprises than was originally envisaged. However, over 55 per cent. of the total outstanding was in items in excess of £100,000. It may be recalled that in April last I.C.F.C. made an issue of £6 million in debentures, raising this form of debt to £16 million, of which £5.5 million has been used to reduce bank loans, originally the sole source of borrowing. The taking of further money from the market is in contemplation, so that the character of finance is changing as the reputation of the Corporation grows; Lord Piercy made it clear that, while this type of finance is not cheap, the situation of the Corporation as a lender has been greatly improved by the control over funds which resulted.

**Eighth International Congress of Accountants**

PRELIMINARY DETAILS ARE now available of the International Congress which is to be held in New York from September 23 to 27, 1962. The theme will be "Auditing and financial reporting in the world economy", the three main subjects being accounting, auditing and financial reporting. Each will be dealt with from the standpoint of communicating financial information to investors, banks, Government agencies and others, and also from that of internal control and information for management purposes.

A visit to the United States need not be as expensive as is usually imagined, and it will probably be possible to arrange air transport at a very advantageous rate. The Organising Committee in New York believes that a cost-conscious member may live comfortably, but not luxuriously, for \$120 for the five days, including the registration fee of \$40.

As further information becomes available it will be sent direct to those completing the notification form which has recently been despatched to members of The Institute of Chartered Accountants in England and Wales. The Council of the Institute hopes that as many members as possible will return the form, as the Council desires the Institute to be represented at this important event in a manner worthy of the major part which members have taken over the years in the international development of the profession.

**Company Law—Administration**

THE BOARD OF Trade has now given oral evidence before the Jenkins Committee and has taken the opportunity to publish a memorandum incorporating the various notes which it has from time to time submitted to the Committee. For the most part the memorandum sets out the arguments for and against various measures which have been put forward, but it comes out with definite views on a number of points. It suggests that the provision that exempt private companies need not appoint properly qualified auditors should be looked into and that any new Act should clarify the duties of auditors to check the books of account and the extent to which directors' certificates may be accepted. The Board also suggests that there may be a case for simplifying the report of the auditors, as now required by Section 162 and the Ninth Schedule of the Act of 1948, provided this can be done without impairing its value. This would appear to be in line with official thinking, as expressed in the recommendations of The Institute of Chartered Accountants in England and Wales. On the question of accounts and their provision the Board would like to see an express obligation to publish instead of the present system under which publication depends on the obligation to present accounts to the members. As to the form of accounts the Board does not believe that it would be possible to prescribe a form suited to all companies, as has been suggested, and it issues a warning that the publication of simplified accounts (unaccompanied by the fully audited version) could be used to mislead the public generally. The oral evidence was concerned almost entirely with questions of administration and, while the Board would not care to see itself charged with duties like those of the Securities and Exchange Commission, suggested amendments could in most cases be implemented, given time to secure the necessary staff. Owing to the great increase in the number of companies, the register of business names has become unmanageable; the Board questions whether it serves any useful purpose, but is of opinion that certain descriptions, like bank and building society, should be brought under the control now applied to business names.

A week earlier the oral evidence of two prominent authorities on the operations of the Securities and Exchange Commission was published.

Much of this is not at present relevant to British conditions, if only because the United States has 94,000 door-to-door registered salesmen of securities, of whom only 4,000 are registered with the S.E.C. It is, however, clear that the principle that the shareholders own the company and have rights of control is more fully honoured there than here.

**Lloyd's and Life Assurance**

THE INVESTIGATION BY Lloyd's of the idea that the Corporation as such can enter the field of long-term life assurance has ended in the abandonment of the project. This does not mean that its members will not be free to develop the small interest some of them have had in life business. It is even imaginable that some of them might work out a co-operative scheme of their own. Had the decision gone the other way it would have meant a major break with tradition, for members have always undertaken their business as individuals and without limit of liability. The step from launching pension fund companies (as some members of Lloyd's have already done) to life assurance is not a large one. But either is a very different business from the short-term kind in which Lloyd's has specialised in the past.

**Investment Club Progress**

WITHIN WEEKS OF the third anniversary of its formation, the National Association of Investments Clubs is able to announce the appointment of its own full-time executive director. The choice has fallen on Mr. John Goudge, an investment club member, who is leaving the Bank of England to take this post. New offices are being taken at 40–41 St. Andrew's Hill, London, E.C.4, between St. Paul's and Printing House Square, and a mailing service to members will be instituted in the near future. With a full-time executive in London, it is hoped soon to establish the international exchange of information, ideas and inter-club correspondence. The World Federation, the formation of which was announced on page 386 of ACCOUNTANCY for July, 1960, has added Canada to its membership and hopes shortly to announce other adherents. Meanwhile the National Association reports smooth working of the arrangements with the Inland Revenue in respect of club income from dividends. The total number of clubs now affiliated to it (and it is not the only British institution working on these lines) has reached 410 and is increasing every week. The affiliates now include nine overseas members, mostly in the Middle East and Africa. In the first half of 1960 membership grew from 85 to 237. A vigorous rate of expansion is still possible, although the percentage rise seems likely to decline.

**Linoleum Price-Fixing Condemned**

THE RESTRICTIVE PRACTICES Court decided that the price-fixing agreement of the Linoleum Manufacturers' Association failed to displace the *prima facie* presumption that restrictive trading agreements were not, as a general rule, beneficial to the public. The Court declared the Association's restrictions contrary to the public interest, though it thought it right to state that the Association had adapted its activities and machinery to meet criticisms and recommendations made by the Working Party on the industry and by the Monopolies Commission.

The agreement fixed common minimum prices and discounts, with rebates for approved wholesalers and merchants, aggregated rebates for retailers and special terms for government departments. There was no evidence of inefficiency, and the fixed prices appeared reasonable. Keen competition prevailed in every aspect other than price.

The Court found exaggerated the Association's fears that abrogation of the agreement would cause a price war leading to debasement of quality, inadequate stocks being held by the distributive trade, higher prices in times of high demand, a substantial reduction of exports, and the likely reductions in price in a free market. Further, it found that the industry was well established, with only nine manufacturers (of which the Association comprised seven). It might be that there would be some widening of discounts, but the Court was not satisfied that there would be such drastic price reduction as to force manufacturers to debase their quality. The introduction of competition into the industry could not be expected to produce a price war; there was no special feature to justify such an expectation.

# Shorter Notes

**Building Societies: composite rate of income tax for 1961/62**

Discussions have taken place between representatives of the Inland Revenue and of the Building Societies Association on the composite rate of income tax for 1961/62, and the Board of Inland Revenue and the Council of the Association have agreed that the rate should be 5s. 5d. The corresponding figure for 1960/61 was 5s. 4d.

**Investment in Industrial and Provident Societies**

The intention of the authorities to raise the limit of possible investment by an individual in any industrial and provident society is now made effective by a two-page document, the Industrial and Provident Societies Act, 1961. The permitted maximum was raised nine years ago from £200 to £500. It is now further increased to £1,000, but the society concerned must first pass a resolution specifically granting this expansion. The Act also permits a society whose members are mainly producers of agricultural or horticultural produce, or are engaged in forestry, and whose object is to make advances for the purposes of these occupations, to make them without security. Abuse is to be prevented by retaining the power of the registrar, with Treasury approval, to cancel registration of a society making advances without security if its members no longer consist mainly of those pursuing the named occupations.

**Bankruptcy**

The 1960 Annual Report of the Board of Trade on Bankruptcy and Deeds of Arrangement (H.M.S.O.: 1s. 9d., by post 1s. 11d.) shows that the number of receiving orders and administration orders rose to 2,801, an increase of 500 over 1959. The principal trades affected were builders, retailers of hardware and electrical goods, retail grocers, farmers, retailers of motor vehicles and cycles, and road haulage contractors. These six groups accounted for 955 failures.

# EDITORIAL
## Accounting for Europe

IT is clear that much of the controversy over a possible British approach to the European Economic Community is being carried on in terms of ideals. The arguments range from those of the extreme pro-Europeans who, begging the question *whether* Britain should join the Six, suggest that we must do so now before the rules of the Community harden, to those of the Beaverbrook school, to whom any interference with the present fiscal ties between Commonwealth countries is anathema. Neither is strong in logic, but each must be accepted as a formidable political pressure. The politicians themselves are certainly having to take account of them, and they are not finding it easy.

A large liberal centre group including the right-wing Socialists, most Liberals, and all but the most right-wing Tories appears in favour of entry into Europe. The main opposition comes from the extremes, both left and right. For a major issue there is an almost unprecedented cutting across party lines. Public interest is being fanned daily by press comment, and Express Newspapers' campaign has had an influence which Lord Beaverbrook himself could hardly have hoped to see again. Yet there has been surprisingly little discussion in the Commons. The first deliberate debate in eleven months on Britain's relations with Europe took place early in July.

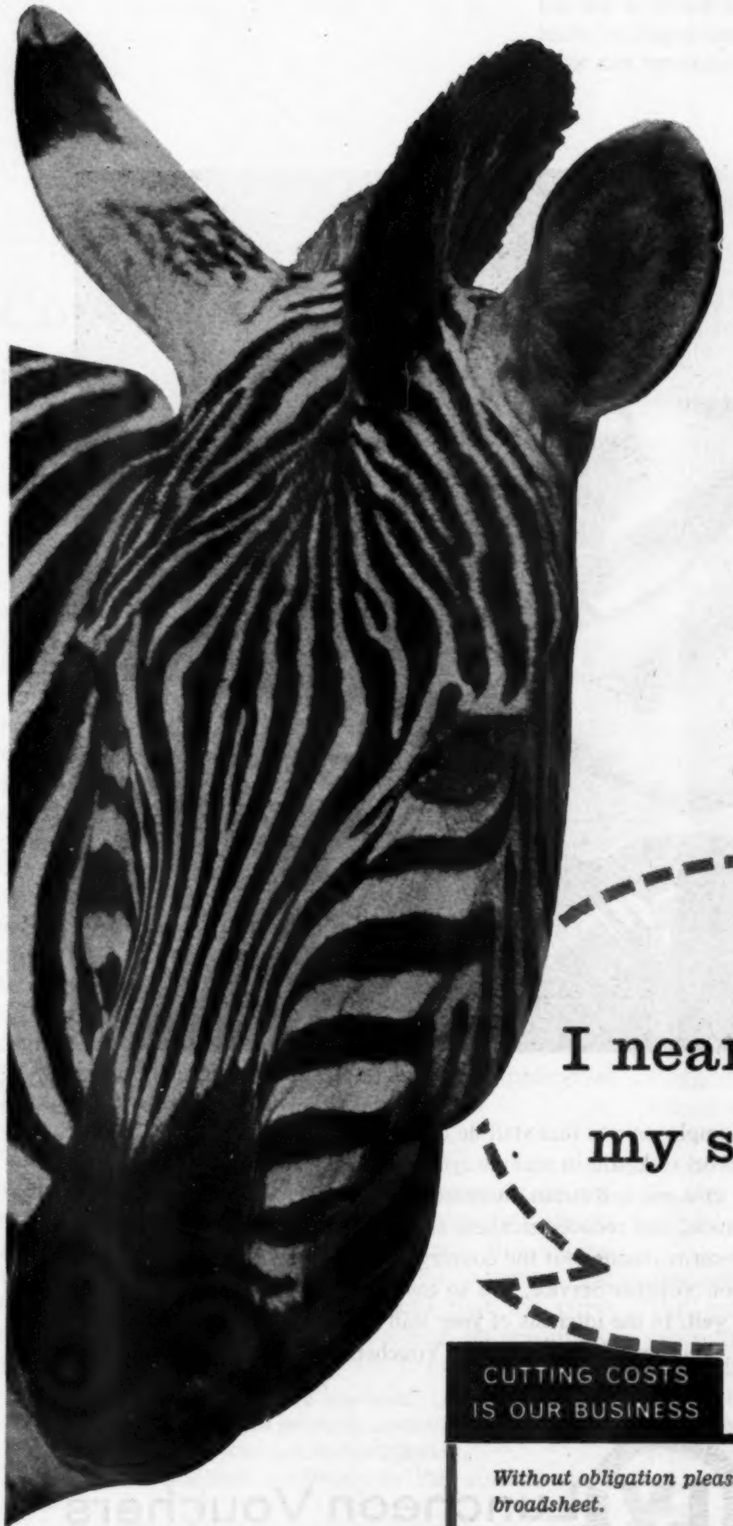
In such an atmosphere it is difficult to secure wide realisation of the major point in the whole question of Britain's economic and fiscal relationship with Western Europe, which is its extreme technical complication. Ideals may drive the debate forward, but only the accommodation of a vast complex of differing national interests, both among the existing Six and between them, the United Kingdom and the Commonwealth, can settle it. The hope that Britain may join, which seems to be shared in some degree by all serious students of the subject, may ultimately break on the sheer intractability of the facts. It is just as well to recognise this from the start. Indeed, it is difficult to see how any accountant, faced constantly with the problem of reducing business situations to comprehensible terms, could fail to recognise it, or indeed to be dismayed by it. Yet singularly little of the public debate has been concerned with technical details.

The commoner reasons advanced against Britain joining the E.E.C. may be taken as read. Obviously negotiations will be difficult if attention is to be paid to the individual needs of members of the Commonwealth. Naturally we cannot overlook our responsibilities to countries which we have encouraged to be dependent upon trade with us; but, apart from asserting that one day we shall have to join, and so we might as well do it now, the more enthusiastic advocates of the new link are more vocal than articulate on the advantages to be gained. Emphasis is laid upon the need for a united Europe and the disadvantages of disunity. Free trade is represented as itself a desirable object, and if it cannot be achieved on a world-wide scale half a loaf is better than no bread. Linking the two is the argument that E.E.C. cannot fail to grow into a political as well as an economic union.

To Lord Gladwyn, former British Ambassador to France and a leading campaigner for joining the Common Market, the chief economic benefits from membership lie in the industrial sphere. The problems of our slow rate of growth and declining share of world exports would, he feels, "certainly be eased by an enforced improvement in industrial efficiency." In his opinion British industrial efficiency is being weakened "chiefly by the high level of our protective tariffs." As tariffs came down against Common Market exports an invigorating wind of change would sweep through our industrial enterprises, so that it would be impossible for any of them to sit back, ignoring what was happening in the outside world. No longer would there be any excuse for manufacturers wanting a large home market; they would have 250 million prospective customers.

Other economic arguments for joining the Community can be found. For several months now sterling has received support from Western Europe. It is still threatened from every angle. Entry into the Common Market might encourage a continuation of this help; a failure to do so could result in unfriendly selling of sterling on European exchanges. Again, it is neither easy nor very realistic to assume that Western Europe can regard the future trading and fiscal policies of the Communist countries as containing no dangers whatsoever for the rest of the world. Since the war Britain has had several economic crises. It would be pleasant to think that our joining the E.E.C. would put an end to these troubles. It would be pleasant too to imagine that production economies and cost control were things of the past, no longer needed once membership had been secured. One thing in all this seems absolutely certain: productivity of men, machines and material must be increased if we are to prosper. This is true even if we join the E.E.C. tomorrow.

The issues are vital ones, yet the argument still lacks facts. It is as though whole ranges of mountains were about to be flattened without any regard to the future courses of rivers. There are vast differences in temperament, background, standard of living and social legislation among the present member nations. The case for getting down to practical possibilities is overwhelming, in the face of all these hopes and fears. Whatever the Government's decision, accountants will have greater contact with Western Europe than ever before. Many of their clients are already deep in investigations and negotiations for closer European links. If British companies cannot get into the Common Market any other way, many of them will do so by setting up subsidiary companies there. For accountants at any rate there is no avoiding the problem and no possibility of escaping its full complexity.



**Failure to invest available funds in worthwhile projects quickly leads to stagnation. Yet ill-judged expenditure is a source of loss. How can management ensure that all its investments are wise ones?**

# Control of Capital Expenditure

*By P. D. Reynolds*

CAPITAL EXPENDITURE SETS the pattern of future trading. Ill-judged capital purchases can be an immediate waste of money and a source of continuing losses. On the other hand, failure to invest available funds in new and worthwhile projects will quickly lead to stagnation. The problem is aggravated by the sporadic way in which it occurs; the tendency is to treat each case on an *ad hoc* basis. Only the very largest concerns can normally afford specialist staff to evaluate capital projects, but the principles and methods they use can be applied to any business. The series of articles of which this is the first will discuss current methods of controlling capital expenditure to best advantage, with particular emphasis on the latest actuarial techniques for assessing future profits. Examples of forms and workings will illustrate the principles adopted, and sufficient data will be given to enable the system to be applied to a wide range of circumstances.

This first article discusses the purpose and application of control procedure.

**Controls Needed**

In any healthy enterprise there will normally be no shortage of schemes to better the fortunes of the business by installing some new plant or process. But capital expenditure must be carefully controlled to ensure that only sound projects are adopted and that the company avoids the danger of overreaching its resources. In general, control must be exercised to ensure that:

(1) The funds required will be available.
(2) All capital spending is properly authorised.
(3) Only worthwhile schemes are sanctioned.
(4) Capital expenditure conforms to the authorisations given.
(5) So far as possible each venture produces results at least as good as the estimates which justified it.

**Availability of Funds**

The starting point, to discover how much capital spending can be afforded, should be the accountant's Cash Forecast, which ought to be projected for five or more years ahead. It will be based upon budgets of cash profits (before depreciation but after deducting tax) less expected dividend distributions, and upon capital expenditure forecasts giving chronological details of payment for existing commitments and all further planned expenditure. The budgets will also provide for any foreseeable variations in working capital.

The difference at any future time between these two forecasts would indicate the permissible limit of further capital spending, but to it must be added any further funds which become available either from disposal of other assets or by raising extra loan or share capital.

This cash forecasting procedure should be familiar to the accountant, but he may have to bully the Board for details of future plans for capital spending. He should encourage the habit of early reservation of funds against broad proposals for renewal and development of the company's assets. Only by working to long-term capital budgets can the best use be made of capital resources. Funds which are not required immediately can then be invested profitably, the greatest economy can be effected in the use of bank overdrafts and short-term loans, and if extra permanent capital must be raised it can be done to best advantage because time will not be too pressing.

**Authorisation of Expenditure**

The inclusion of a project in the long-term capital expenditure budget does not imply an automatic authority for proceeding with that scheme. Each case must be considered fully on its merits when the time arises.

The power to commit a business to substantial capital expenditure is almost invariably reserved to the directors, for such decisions often require the weighing of more subtle factors than straightforward estimates of cost and return. Here their trained judgment is vitally important. Typical considerations which cannot readily and incontrovertibly be quantified are the probabilities of change in known trends of marketing or manufacturing and the prestige value of a particular line of business. To this extent the Board's choice must be subjective and reflect its personal bents and backgrounds. Thus an

engineering-trained director will tend to favour schemes for plant improvement, while another, with selling experience, might push forward a scheme to increase turnover irrespective of whether the goods were to be manufactured or bought-in. Inevitably these personal idiosyncrasies will be criticised, but they are not wholly avoidable. The ultimate test is the trading result, and if this is consistently disappointing there will eventually be a change of management.

**Delegation of Power of Sanction**

The levels of capital spending which may be delegated to local or departmental managers must depend upon the size of the business. In very large companies individual projects costing up to £10,000 or more may be sanctioned by local managers; in other cases no more than £50 or £100 may be spent without the specific sanction of the Board. The factor to determine the best level of delegation should be the number of projects regularly coming forward for decision. If the Board restricts those which it studies personally to a manageable number, it will be able to tackle them more effectively and at the same time give leadership to increase the likelihood of lesser schemes receiving equally objective and thorough scrutiny from lower levels of management. Another advantage of this delegation is that it gives experience to those who may eventually succeed to the highest positions in the company.

**Appraisal of Projects**

Proper appraisal of 'worthwhileness' is vital to a successful system for control of capital expenditure. It can easily go wrong, either through the employment of ill-judged techniques to relate the expected return to the capital outlay required, or because of uncertainties in some of the basic estimates.

A Board can restrict the sanction of capital expenditure to projects promising a return of 30 per cent. or more and yet find the overall results of the business yield less than 20 per cent. upon the capital employed.

Many factors may have helped to produce such a disappointing outcome. These can include bad estimating, unforeseen operating difficulties and a decline in profitability of older parts of the business masking the gains of the new. Greater than any of these can be the error introduced by a misjudged technique for calculating expected profitability. This subject will be examined in the next article.

Profitability is not always the prime consideration, but all capital spending must always be justifiable in so far as it will bring some sort of gain to the company. The benefits from such items as welfare or research facilities cannot normally be quantified.

Other examples of advantages which might influence the adoption of a project but which cannot easily be expressed in monetary terms are:

(1) Winning a greater share of the market or opening new markets in other territories.
(2) Beating competitors by putting a new product on the market first and so establishing pioneering goodwill as well as reaping pioneering profits.
(3) Maintaining useful contacts for other trade by the continuance of a service which is, of itself, barely profitable.

Special cases of this type must be considered on their own particular merits: the examples developed here will be confined to cases with measurable costs and profits.

**Timing of Profits**

The significance of the time pattern in the expected return from an investment will vary between different types of business. Where equity is high-geared (as may be the case in a family business) any major expansion will normally be financed by borrowings which the management will keep to as short a term as possible. Here a quick pay-back is particularly desirable and may often be a condition of obtaining the loan. The larger public companies, on the other hand, should have comparatively little difficulty in raising the funds they require and may have sufficient resources to invest in projects whose profits are much deferred. There may even be less danger of competition in this kind of venture, and the prospect of really high profits in later years may seem particularly attractive. On the other hand, managements in this happy position must not overlook or undervalue the cost of sacrificing earlier profits which could be reinvested at the going rate for their type of business.

**Profitability Targets**

It may well happen that a Board has more than one proposal to consider, each justified by an estimate of profitability, while available funds can pay for only one. It has three courses open:

(1) To approve the project it judges the best.
(2) To raise extra funds and develop one or more additional schemes.
(3) To reject them all and look for something better.

To arrive at its decision the Board will need to have a clear idea of the level of profit in relation to capital expenditure which should be looked for in any given scheme. This is a vexed question to which there is no single answer. A method of calculating the rate of profit necessary in any particular set of circumstances, to allow for inflation and a steady rate of expansion, has been proposed by Mr. A. T. Oram, F.C.A., in a paper given to a conference held by the British Institute of Management in May, 1961, on *Profitable Uses of Capital.* It is not proposed to discuss Mr. Oram's thesis here; but, while businessmen will need no warning of the danger in planning for too small a profit, those who are concerned for political or altruistic motives not to seek too much will certainly find his paper repays study. This is quite distinct from the question of setting the right selling price: basic economic considerations will indicate the best balance between profit margins and scale of operations.

For many businesses it will not be necessary to go to the length of calculating an ideal level of profitability: a practical target can be based upon the published results

of similar concerns. Reports of the Monopolies Commission sometimes table data of this sort; 20 per cent. may be inferred to be the maximum return acceptable for a monopoly supplying a public need, but for more competitive industries the results range widely. An appendix to the Monopolies Commission report on Chemical Fertilisers, dated July, 1959, shows various businesses earning between 8 per cent. and 33 per cent. on the book value of capital employed. Information of this sort must be used with caution, however, for the capital employed figures used by the Monopolies Commission are generally based upon book values after depreciation, whereas the return to be given by a new venture is frequently considered in relation to the initial cost and working capital.

It is generally safe to assume that any particular project which is advocated for its profitability should promise a return higher than the average for the company. This is in order to compensate for the depressing effect overall of other funds employed necessarily but less profitably—for example, in staff amenities, obsolescent plant, etc. It is also necessary to provide for the risk that competition or technical developments may force down the profitability of a new venture before the end of its normal life; this is best achieved by requiring a relatively high level of initial return. Similarly an adequate target of profitability will include a margin to compensate for monetary inflation so that a sufficient cash flow is generated to permit the replacement of the assets, at the end of their life, at the higher prices then ruling.

**Replacement Assets**

It is usually convenient to distinguish capital expenditure for replacement and modifications of existing assets from investment in entirely new ventures. One very good reason for keeping this distinction is that much more is known about the existing venture, and profitability estimates will be much less in doubt than when entirely new activities are involved. This does not imply that replacement expenditure need not be justified economically. Rather the opposite. It is very easy to take the established order of things for granted, but it can easily happen that profitability of a worn-out plant has declined for commercial reasons to a level so unattractive that even the extra financial or commercial economies which modern replacements may offer could not make the venture profitable for more than a very few years. This point is fairly clearly seen in the shipping business, where the profitability of a new passenger liner, for all its lower operating costs and higher capacity, may be threatened by the growing popularity of air travel. In a machine shop, on the other hand, the fact that a traditional material or product is being overtaken by a substitute produced in quite a different way is not always so readily accepted. Many large companies are nowadays protecting themselves on a major scale against this tendency of industries to die by diversifying their activities, but it is still necessary to reappraise every activity of a company from time to time. One of the most convenient occasions is when a major replacement of plant is called for.

**Application for Sanction of Capital Expenditure**

The majority of larger companies use a formal procedure to control capital expenditure. Capital cost, justification for the outlay and expected profitability are summarised in an application form, such as Form A. It may be necessary to amplify the "commercial story" on a separate sheet if justice cannot be done to it in the space provided under "Reason for Application." All other backing papers (relating to profitability and capital cost) will normally be retained by the departmental manager responsible for presenting the application, and will be referred to only to support any items which may be challenged.

**Profitability**

Profitability is shown on the form in two ways. This is not always necessary, but is certainly desirable for the more complex projects. The graph plots return on capital (measured conventionally as net profits before tax as a percentage of the gross investment required) against operating at different levels of capacity. The crosses indicate the results expected in each of the first three years after the plant comes into operation.

The information from which the profitability graph is prepared is taken from Form B—Estimate of Incremental Profits. The points marked for the expected results of each of the first three years' operating correspond to operating at 16.6 per cent., 66.6 per cent., and 100 per cent. of capacity, as declared in Form A under "Reason for Application."

The calculation of the present value index will be shown in a later article, but it may be noted here that it reflects the overall average ratio, taken over the whole expected life of the project, of profits after tax to the outstanding balance of capital investment.

**Basis for Control**

The application on Form A for sanction of capital expenditure provides a keystone upon which detailed control will depend. The statements under "Reason for Application" will show the basic commercial assumptions taken into consideration and, together with the detailed estimates of capital cost and profitability, will provide a basis for control by way of comparing subsequent results with what was intended. Variances will be investigated, and any undesired trends corrected or unexpected gains consolidated.

**Capital Expenditure**

Control of capital expenditure starts with the preparation of fully detailed estimates before the project is sanctioned, and continues by ensuring that actual expenditure does not vary substantially from these estimates without very good reason.

Expenditure must be posted to the correct accounting heads, and over- or under-expenditure on any significant scale must be reported upon as soon as it is apparent that it will occur. Really substantial over-expenditure should require supplementary sanction, probably involving a complete reappraisal of the project. It is always possible

**FORM A. CAPITAL EXPENDITURE APPLICATION** — Date 15/3/60

Department: Soft Fruits — Serial No. A.17

Title: Freeze-Drying Plant

Description: Automatic unit manufactured by Welman Engineering Co. Ltd. for freeze-drying up to 200 lbs./hour

| Amount requested: | |
|---|---|
| New | £100,000 |
| Replacement | £ |
| | £100,000 |

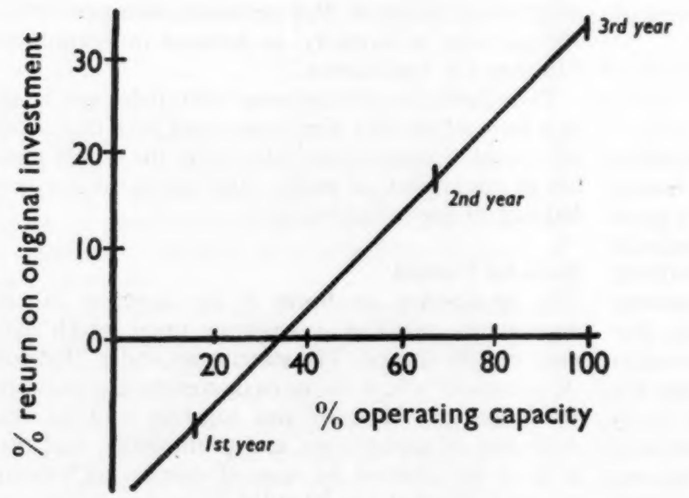
**Reason for application:**
The traditional outlets for processed soft fruits (jams and canning) are declining and modernisation of these plants (now completely written off in the books) would not be worth while. The market research report (attached) indicates a profitable alternative in freeze drying. Sales are estimated at £20,000 in the first year, £80,000 in the second year and £120,000 p.a. thereafter. The project promises attractive profits and is necessary if the company is to retain its stake in the Soft Fruits market.

| **Capital Cost Summary:** | £ |
|---|---|
| Buildings | — |
| Plant | 100,000 |
| Other items | — |
| Cost of fixed assets | 100,000 |
| Extra working capital | 20,000 |
| Total Investment | 120,000 |

Estimated completion date: 1/10/60

| **Cumulative Expenditure Forecast:** | | £ |
|---|---|---|
| Within | 3 months | 62,500 |
| | 6 | 75,000 |
| | 9 | 87,500 |
| | 12 | 100,000 |
| Later (give dates) | | . |
| | | 100,000 |

**Profitability:**




Average profitability:
Assumed life 10 years
Present Value index 14.4%

| | |
|---|---|
| Presented by: P. Williams, Manager Soft Fruit Department | Date: 20/7/59 |
| Passed by: J. White, Director Soft Fruit Department | 1/9/59 |
| Approved by Board: A. Hastings, Chairman | 23/9/59 |

Date commenced: 1/10/59
completed: 3/3/61

Final cost: £98,000

Under/Over expenditure: £1,200

Post-audit—first three years — Date 1 30/9/61; 2; 3

**FORM B. ESTIMATE OF INCREMENTAL PROFITS**

Title: Freeze-Drying Plant — Serial No. A17

| | | | | | |
|---|---|---|---|---|---|
| Output/Sales | | Unit lbs. | 480,000 | 360,000 | 240,000 |
| % of new capacity | | | 100% | 75% | 50% |
| | | | £ | £ | £ |
| Extra Sales | Price | Unit | 120,000 | 90,000 | 60,000 |
| Grade A | 5/– | lb. | — | — | — |
| Grade B | 3/6 | lb. | | | |
| Net sales | | | 120,000 | 90,000 | 60,000 |
| Cost of production | | | 60,000 | 45,000 | 30,000 |
| Marginal profit | | | 60,000 | 45,000 | 30,000 |
| Fixed expense | | | 10,000 | 10,000 | 10,000 |
| Net profit before depreciation | | | 50,000 | 35,000 | 20,000 |
| Depreciation at: 10% on £100,000 | | | 10,000 | 10,000 | 10,000 |
| Net profit before tax | | | 40,000 | 25,000 | 10,000 |
| Capital investment: | | | | | |
| Fixed assets | | | 100,000 | 100,000 | 100,000 |
| Working capital: (2 months sales) | | | 20,000 | 15,000 | 10,000 |
| Gross investment | | | 120,000 | 115,000 | 110,000 |
| Return on gross investment | | | 33.3% | 21.7% | 9.1% |

Prepared by: J. Smith — Date: 10/3/60

that this reappraisal may show the project to be no longer worth continuing and that the directors may decide to abandon it and cut their losses. On the other hand, it will be possible to calculate and show separately any increases due directly to escalation in plant construction or installation costs, and this element may be disregarded in so far as it reflects any general level of inflation which is expected to be matched by similar increases in operating margins. Similarly, underspending on any account must be noted and the tendency curbed to use funds, because they have been authorised, to embellish the original design or purchase other things that may seem desirable to an engineer or departmental manager but have not been sanctioned at the proper level. Another important benefit of correctly itemised accounting of capital expenditure and comparisons with estimates is the experience fed back to improve estimating techniques on future occasions. Form C illustrates a method of formalising this control of capital spending. This return should be prepared monthly while the installation is in progress.

**Post-Audit**

Only for the more substantial projects is it normally worth while to conduct, as a special exercise, a comparison of actual results with the profitability estimate used to justify the capital expenditure. Form D shows how the results of such an investigation can be summarised. The post-audit will normally be done once only, when the new plant has been operating for a year, but in more complex cases where full profitability is not achieved in this time a second investigation may be necessary later. This is a special application of management accounting techniques, to give concentrated attention to a novel branch of operating which should be especially responsive to objective investigation. As with the check on actual capital expenditure, this investigation should also give guidance to improve the accuracy of subsequent forecasts of profits.

**Cutting Losses**

There can be a danger in exaggerating the fixedness of

**FORM C. CAPITAL EXPENDITURE PROGRESS SHEET**

**Project Title:** Freeze-Drying Plant

Date 31/12/60

Serial No. A17

| A/C No. 133/ | Description | Authorised £ | Spent to date £ | % Completed £ | Expected Variance, over/under estimate |
|---|---|---|---|---|---|
| 01 | Production plant | 83,000 | 83,000 | 100 | — |
| 11 | Refrigeration supply | 2,500 | 2,400 | 80 | + 380 |
| 21 | Electrical supply | 1,800 | 1,850 | 100 | + 50 |
| 31 | Gravity conveyors | 3,200 | 1,800 | 100 | −1400 (1) |
| 41 | Installation labour | 1,500 | 1,250 | 95 | − 175 |
| | etc. | | | | |

Original date for completion: 1/10/60

Latest estimate: 28/2/61 Ahead/behind: 5 months (2)

Remarks:

(1) Conveyors purchased second-hand from associated company.

(2) Delays are due to difficulties with the service connections for refrigeration. No production will be lost in the first year.

Prepared by: T. Johnstone Date: 12/1/61

fixed assets when capital expenditure has been incurred, but it must be realised that the term "fixed assets" is purely relative. It is customary to account for heavy machinery with a life of some years in a different way from tools and raw materials, but this should not be taken to prove beyond question that any "fixed assets" are committed beyond recovery if the project should prove less worth while than was originally thought. Unwanted plant can possibly be sold at a loss less than the loss that would be incurred by continuing to use it. In other cases plant, and more particularly buildings, can be adapted to alternative uses. Industry is full of examples of adaptation, but too often adaptation occurs only after the original activity has been clearly obsolescent for some years. There is no reason why a reappraisal should not lead to the abandonment of an ill-found scheme even before it has got under way and added trading losses to its original cost.

In such circumstances the substantial resources of wealthy companies can lead to expensive procrastination where the more slender finances of smaller firms lend urgency to reappraisal of an unsuccessful project so that ingenuity will be devoted to salvaging the venture with the least delay.

**FORM D. PERFORMANCE REPORT FOR PERIOD: 12 months ended 30/9/61**

**Title: Freeze-Drying Plant** | **Serial No. A 17**

| | | | |
|---|---|---|---|
| Actual production: 96,000 lbs. | 20% of capacity | | |
| Expected: 80,000 lbs. | 16.6% | | |
| | | | Variances £ |
| Volume variance | | | +4,000 |
| | Estimate (at actual volume) | Actual | |
| Cost of production | 12,000 | 12,500 | − 500 |
| Sales price and mix | — | — | −1,200 |
| Fixed expense | 20,000 | 20,000 | — |
| | | Total variance | +2,300 |

Present Value index:
Original estimate: 14.4%
Revised estimate: same %

Return at 100% operating:
Original: 33.3%
Revised: same %

Comments on variances:

Extra supplies of fruit were diverted to this plant when the canning plant broke down in July, 1961. Overtime working accounted for the cost of production variance.

The canning fruit was of inferior quality and had to be sold as Grade B to the catering trade: this caused the adverse sales mix variance.

There is no occasion to revise the original estimates for normal working.

Prepared by: T. Johnstone, Asst. Acct. | Date: 12/11/61

**Flexibility in Applying Control**

Procedures should be flexible and must be adapted to the particular needs of each business. The arrangements described suggest ways of dealing with the more substantial proposals—those which demand most careful consideration before they are adopted. Very often there may be no need to go to such lengths, even though the expenditure involved is substantial. This is frequently true of replacements, and particularly of short-lived assets such as a transport fleet. The suggested routine is always to consider the whole control system but to apply only those sections which are seen to be applicable.

It is always preferable to use the simplest approach when there is a choice, and some of the arrangements suggested will not prove necessary in every case. The actuarial method of assessing profitability is chiefly of value when the worthwhileness of a venture (measured more approximately) is in doubt; in short, it is generally of most value when it is apparent that the time pattern of cash returns is uneven or subject to initial delay.

The following levels of capital expenditure for introducing particular checks have been suggested in an article "*How to Appraise Capital Investments*" by J. W. Hackney, published in *Chemical Engineering* of May 15, 1961. It should be noted that these levels were suggested in the context of large chemical undertakings in the

U.S.A., and it would probably be reasonable here to set much lower limits for applying some of these procedures.

| | £ |
|---|---|
| Capital cash estimates | 10,000 |
| Present value index | 100,000 |
| Post-audit of operating results | 100,000 |
| Report on progress of capital expenditure | 100,000 |

**The Role of the Accountant**

The accountant should be closely involved at every stage. In four out of the five requisites for effective control of capital expenditure his natural responsibility is apparent:

(1) To ensure that funds required will be available: this he achieves by reconciling projected expenditure with his Cash and Capital Expenditure Forecasts.

(2) To prevent unauthorised capital expenditure: comment is superfluous.

(3) To prevent the misappropriation or over-spending of capital expenditure authorisations: here the accountant will depend on fully detailed estimates of expenditure backing the original application. Correct allocation of expenditure as it is incurred will enable him to complete Form C and report to the Board any probable over- or under-expenditure, frequently long before it occurs.

(4) To check results against estimated profitability when this is desirable. It will often be up to the accountant to decide whether a post-audit is desirable: standing procedures for introducing certain checks at particular levels of expenditure will give a useful guide, but each particular decision whether or not to conduct a full investigation should depend upon the accountant's preliminary assessment of the results of the project in question.

The only aspect in which the accountant's contribution may not be so directly apparent is in determining that only worthwhile schemes are sanctioned. Like individual directors, the accountant may be prejudiced, but his bias should be solely in the direction of ensuring that every venture is profitable. He should otherwise be more objective than the engineering or sales specialist. Here he can act as a coordinator for the forecasts and other data emanating from sales and production people. It will be up to him to scrutinise these individual statements objectively, to investigate any weaknesses in the arguments proposed, and to set them out on a comparable basis and in a way capable of subsequent checking.

The fair and objective appraisal of profitability estimates is a vital element in controlling capital expenditure, and is probably the most complex part of the work. It will be discussed in subsequent articles.

**Thousands of pounds a year are being saved by one large company following a recent radical pruning and simplification of stock control procedures. Is that company exceptional, or are similar opportunities available to all?**

# The Simplification of Stock Control

WHEN THE ESTIMATES for 1957 were set before Sir Simon Marks, Chairman and Joint Managing Director of Marks and Spencer Ltd., he is said to have been horrified, for without exception all showed an increase. Realising that their acceptance must inevitably result in dearer goods, Sir Simon put his foot down. Instead of increasing prices, he decided that prices must be reduced, and, to achieve this, efficiency of working and administration must be increased. There began a virtual revolution: it was not a matter of trying to improve parts of the system, but rather of questioning the system itself. What had for years been accepted became suspect overnight, and was either justified or scrapped. The resulting reorganisation has led so far to an annual saving of 26 million forms, many of which related to stocks. The process of simplification is still going on and whilst cuts in paper work are now of necessity rather smaller, there has been no diminishing of management enthusiasm for the revised thinking.

The success of the simplification campaign is attributed to the way in which employees were taken into their directors' confidence and encouraged to make suggestions. From the beginning it was made clear that this was not an attack on "people" but upon the wasteful use of their time, energy and ability; it was not an economy campaign but a striving towards good housekeeping.

It was soon apparent that the cost of perfection under the old system could be prohibitive: for instance, the checking of one account for £1,800 resulted in the saving of 1s. 11d.—but cost about one week's wages for a clerk. Marks and Spencer now follow the principle of "sensible approximation", preferring slight inaccuracy in statistics to excessive clerical costs. Since executives know within reasonable limits what materials, processes, or services should cost, occasional spot checks, and investigations when these margins are exceeded, replace the meticulous scrutiny once considered essential.

This pruning of paper work inevitably gave rise to a

surplus of staff, many of whom had been reorganised out of a job. Nevertheless, a 20 per cent. reduction in labour force was achieved over a period of two years without any resort to dismissal. Admittedly the company is assisted by the fact that the majority of its employees are women, and labour turnover caused by marriage and domestic reasons is therefore normal, but it is clear that redundancy problems caused by the streamlining of procedures are far from insuperable.

Whereas the old system was based upon specialisation, under the new organisation artificial and even physical barriers were broken down and girls found themselves doing different jobs in varying trading conditions. Not only was it more efficient for counter girls to help in the stockroom or the office rather than stand idle, but better for their morale; and at rush periods the interchange worked the other way—girls who were normally behind the scenes lent a hand on the counter. Interchangeability not only led to a reduction in the labour force, but increased its efficiency and productivity; and the cutting out of non-essentials made training much easier. All of which helped to reduce costs and enabled the company to lower its prices where it would otherwise have had to increase them.

**New Attitude to Branch Stocks**

How has this new scheme worked in the case of stocks? Stocks are held in three places: on the counter, below the counter, and in a stockroom. Under the old system a continuous check on stocks was regarded as essential if the branch manager was to be in a position to decide his requirements and if losses were to be safeguarded against. Every movement, therefore, from stockroom to under the counter, or from under to above the counter, had to be set down in the most minute detail. Boys' pyjamas, for example, might come in five sizes, in four colours and in three styles, requiring the recording of sixty different articles in three places. But boys' pyjamas are only one of the 1,300 items a branch must carry—and there are 237 branches—so it is not difficult to picture the intricate mass of stock records that had to be prepared.

Today a branch's stock is regarded as one stock, no matter where it is held; the stockroom is open to the sales girls so that they can replenish their counters, and the stockroom specialists, who used to deal with the forms made out by the sales staff, are no longer needed. Not only has this saved time and paper, but the flow of goods to counters has been speeded. Sales girls, having the responsibility for "running their own shops", take more interest in their work, and managers have found (what they probably suspected already) that their own experience is a better and faster guide to ordering than a mass of statistics based on a complicated system of stock records. After trying the new system for about three years Marks and Spencer have come to the conclusion that the old plan did not prevent losses, it merely recorded them; for there has been no increase in losses under the revised organisation.

This new attitude towards branch stocks is, however, only a part of a more fundamental change: Marks and Spencer trust their staff, and they set out to make them feel that they have a really important part to play in the business in which they work. What is more, as will be shown in the more detailed description of methods below, they trust their suppliers and they trust their customers. In fact, they adopt the guiding principle that "People can be trusted." Once this is accepted, a whole host of accountancy checks and cross checks can be thrown overboard.

**Records of Orders Placed**

Formerly a record of the orders placed was kept by the store retaining a confirmation copy of the stores order form (or, if the goods were ordered by Head Office, by holding a copy of the Head Office advice note). Upon receipt of the goods, details were entered on goods received notes, in triplicate; and in some stores daily summaries of these were provided for local management. Every bale or package was opened and the list made of the goods it contained was passed to the office, where it was checked against the advice note.

The question was then asked; "Why is it necessary to compile a list in the receipt bay and then check this list against the advice note in the office?" The answer could only be lack of trust in staff—so a new method was instituted. Goods received notes are no longer used—saving ten million notes a year. Instead the confirmation copy of the stores order, or Head Office advice note, is used for checking deliveries. Details of all packing cases and other packages received used to be entered in a book. This has now been simplified, and suppliers have been pressed to use non-returnable packages or else to make no charge for them. The result is the virtual elimination of empties consignment notes, 800,000 of which were previously prepared each year.

**Head Office Control of Stocks**

The old system employed a set of some 500 catalogue cards, reprinted and reissued by Head Office every six weeks. From these cards information about the sales and stock position of 2,800 items was entered on to checking lists, which were sent to a Head Office department every fourteen days. Copies of these checking lists also went to other Head Office departments which assisted in the ordering and distribution of goods.

Catalogue cards have now been eliminated, and the checking lists have been amended to allow stock totals to be entered direct; they have also been drastically simplified by eliminating the separate recording of items by shape, size and grade. The lists now include more general headings covering main lines of sales only. Thus, in the case of one garment, there are six colours, two styles and three sizes, which used to involve thirty-six catalogue card and checking list entries. Since it was found that experience enabled the individual stores to determine the sizes, colours and styles in greatest demand and to make their reprovisioning requests accordingly, recording and accounting was reduced to a single item.

**Advice by Head Office of Goods to be Received**

Previously Head Office, having instructed a manufacturer what to deliver and to which stores, extracted the information relating to each store and expressed it in the form of an advice note, which told the store what it was to receive. Now, to cut out all the work of extracting the information relative to particular stores, every store receives a copy of the supplier's delivery instruction sheet and picks out the appropriate information from that document. Admittedly each store receives a larger sheet of paper, but thousands of hours of clerical work are saved.

Formerly the totals of invoices relating to incoming goods at each store were entered daily on ledger sheets and a summary sent to headquarters weekly. Store records have now been abandoned, and each manufacturer renders a single invoice for each main line, to cover each supplier's delivery instruction sheet. Under the old system between 60,000 and 100,000 invoices were received every week, each of which was checked by the appropriate store before being passed to Head Office. This has been reduced to about 5,000 a week, and there is no longer any invoice check at the store, with a consequent reduction of staff.

Payment is within seven days, a system of cycle payment (mainly by credit transfer) under letters of the alphabet being employed. Suppliers' invoices are checked against the appropriate delivery instruction sheets, but there is no attempt at this stage to ensure the safe receipt of the goods: the supplier is trusted. If after, say, a fortnight, a particular consignment of goods ordered for a certain branch has not arrived, and the supplier has not drawn attention to his failure to supply, the branch gets in touch with Head Office and the necessary administrative action is taken.

**Customer Complaints**

Under the old system defective garments were sent to Head Office with a complaints receipt form, and the information was put on punched cards and analysed—about 250,000 cards being used annually. Statistics on complaints are not now collected; goods are replaced or money refunded without question, and the task of obtaining information about complaints is left to Head Office staff visiting branches, such as the selectors responsible for the design and selection of goods and the merchandisers who obtain and arrange for the distribution of goods.

**Stock Room Records at the Stores**

Formerly detailed records showing goods received from suppliers, withdrawals of stock for the sales floor, and the balance remaining were kept in each stores stock room. Stock order forms were written out by the sales assistant whenever she required goods from the stock room, and whenever goods went back into the stock room entries were made in the stock records.

All these records have now been abandoned; the stock room locks have been removed, and assistants can withdraw goods whenever necessary. A great advantage of this system is that the sales girls now take a far greater interest in the maintenance of a well-stocked counter than they did before, and, knowing the full stock position at first hand, they are able to satisfy customer requirements far more promptly and effectively. The supervision needed to ensure a proper balance of stocks on the counters has also been greatly reduced.

**Reversal of Normal Trends**

The tendency in most similar businesses has been towards centralisation, mechanisation and ever increasing paperwork and controls, whereas the reverse has been the case with Marks and Spencer. Staff at lower levels have responded to their greater responsibilities, and, because there are fewer forms and statistics to deal with, there is less scope for office machinery: there is no electronic office equipment at Marks and Spencer. As a correspondent in response to a news story about the company wrote:

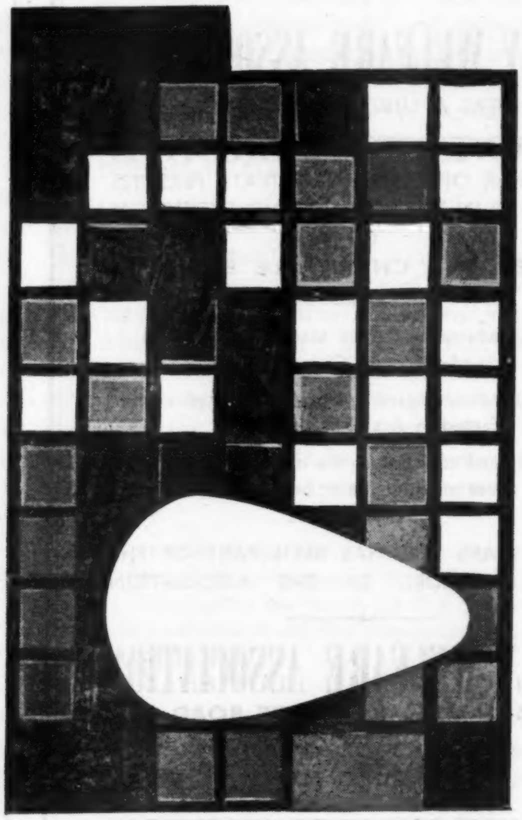
> They have discounted the machine and put a premium on that perceptive and adaptable instrument, the human brain. This would appear to be the greatest single technological advance in the last fifty years, and much cheaper than automation.

**Results**

As stated earlier, it is estimated that Marks and Spencer Ltd. has saved 26 million pieces of paper per annum by work simplification. This amount of paper would weigh 120 tons. A major part of that saving related to stock records. In three years the company's sales staff declined by 20 per cent. and the store office staff by as much as 50 per cent. Facts such as these made it possible for the company to make cuts of up to 18 per cent. in prices in 1958, and further cuts in 1959.

Is there a lesson here to be learned by accountants? Without doubt there is—but what lesson? Is it perhaps that form filling costs money—which should be apparent anyway—so that the introduction of any new form ought to require top level approval? Perhaps it is that design and planning are as important in this direction as they are in production. Or is it that an audit mentality is not always appropriate, because most people are honest anyway, and checks may cost far more money than they save? Unprofitable checking certainly does not seem reasonable, but probably the most important feature of the Marks and Spencer system is the broad general check imposed by total controls, which makes it unnecessary to consider details unless something appears to be going wrong.

Taken right down to its simplest principles, Marks and Spencer's idea appears to be to apply work study, and in particular method study, to store organisation, including that of the office; and to decide upon the procedures necessary by applying the test of profitability. Not all concerns will gain in the same way, and others are not recommended to instal similar systems without considering their own individual circumstances—but the basic commonsense approach is without doubt of general application.



**This hard-hitting article probably represents the extreme of adverse criticism of the Report of the Committee on Education and Training, the debate on which is still in progress. The article of course commits nobody but its author.**

# The Report on Education and Training: Failure of a Mission

*By Professor David Solomons, B.Com., F.C.A.**

WHEN THE INSTITUTE of Chartered Accountants in England and Wales received its charter in 1880, the educational landscape was very different from what it is today. Compulsory elementary education was barely ten years old, and was not everywhere free. Technical and commercial education did not exist in the modern sense. There were no universities (outside Scotland) except Oxford, Cambridge, Durham and London; the University of Manchester was just coming into existence. The problems confronting the accountancy profession were also very different from what they are now. Insolvency administration was the main preoccupation at that time, and taxation and management accounting were little thought of. It is by no means surprising, therefore, that in 1958 the Council of the Institute should have moved to set up a committee "to consider the education and training appropriate for entrants to the profession, the existing arrangements and facilities therefor, and the changes, if any, which should be made so as to ensure the provision of an adequate supply of trained candidates suitable in all respects for admission to membership of the Institute: and to make recommendations." Now, after nearly three years of hard labour on the part of the Committee, its report is before us. While it will be for the Council of the Institute to decide what action, if any, is to be taken on the Report, every member of the Institute who has any concern for its future has an obligation to form his own judgment on the result of the Committee's work.

The Committee had a choice between two diametrically opposite approaches to its task. It could start by asking itself what kind of system it would recommend if it had not inherited certain arrangements from the past, and it could then see to what extent the existing arrangements could be retained without prejudicing the reforms which its study had shown to be necessary. This approach would have called for a careful comparative study of the educational systems developed by other professions and by the accountancy profession itself in other countries. This would be a natural approach for those who think that a system of education and training which may have been the best available to the accountancy profession in the nineteenth century is conceivably not the best that is possible in the second half of the twentieth. Alternatively, the present system could be regarded as hallowed by tradition, and as only to be changed in detailed ways which would leave traditional practices undisturbed. There is little doubt that it is this latter approach which has produced the Report now before us. And it is for that reason that it represents, as it seems to me, a completely inadequate response to the challenge with which the Committee was faced.

**Why the Committee's Recommendations Are Inadequate**

For the benefit of those who are as yet unfamiliar with the Committee's findings, I think it is fair to say that they reject all proposals for radical change, but that they propose to modify the present arrangements in a number of ways, the most important of which are:

1. to reduce from five years to four the period under articles required of candidates who have remained at school until the age of 17½ and have passed two subjects in the G.C.E. at advanced level;
2. to amend the examination syllabus by including some elementary economics and statistics, and to increase the attention devoted to management accounting;
3. to arrange for the provision of three courses of full-time oral tuition, each of not more than three weeks' duration, the first to come soon after the beginning of articles, and the second and third at intervals thereafter;
4. to increase the minimum total allowance of study leave to twenty-six weeks;
5. to permit a principal to second an articled clerk, with his concurrence, to other members' firms for periods not exceeding six months in all.

* The author, who is a Fellow of The Institute of Chartered Accountants in England and Wales, is Professor of Accounting in the Wharton School of Finance and Commerce, University of Pennsylvania. From 1955 to 1959 he was Professor of Accounting in the University of Bristol and before that was Reader in Accounting in the University of London.

There are, of course, a good many other recommendations, but I cannot regard any of them as being of major importance. Indeed, it is doubtful whether the last item on the above list is really entitled to be so considered, for it is already possible for an articled clerk to transfer from one firm to another, with the consent of both principals, and secondment is merely a simpler means of attaining one of the purposes of a transfer of articles, namely an extension of the opportunities for gaining experience.

So far as these positive recommendations are concerned, the first, second, fourth, and fifth of those noted above are easy to accept. The third is of much more doubtful value, and I shall return to it later when considering the Committee's views on "classroom tuition." But it is because of its sins of omission, not of commission, that I hold the Committee to have failed in its task.

There is a brief but revealing passage in the Report itself which sums up the cause of my dissatisfaction. The Committee is considering the provision of experience in management accounting for articled clerks, and states: "To what extent a practical insight into the use of accounting by management can be provided by the principal during articles will depend very much on the nature of his practice and on the extent to which this use of accounting has been developed by or for his clients. Significant development has taken place in recent years, and it is continuing. We believe, however, that this development has still a long way to go before worthwhile experience in this field for articled clerks could be found in a sufficient number of undertakings. . . . *Unless there can be a reasonable assurance that all pupils can acquire that particular experience, it cannot be represented as being of the essence of the newly-admitted member's qualifications*" (para. 93—italics supplied). In other words, the training which a prospective chartered accountant needs to have is, by definition, the training which can be obtained through the articled clerk system in approximately its present form. Therefore, the articled clerk system in approximately its present form is a satisfactory means of training prospective accountants. Q.E.D.

**Study and Experience—A Misguided View**

I believe that if one looks at the present system with an open mind, three conclusions are inescapable.

1. That with the evolution of accounting and management out of the craft stage into at least highly sophisticated arts (I hesitate to use the word science), practical experience is destined to lose some, perhaps much, of its formerly predominant place in the system of education. When wars were fought with bows and arrows, skill and practical experience on the part of the archers was no doubt more important than their educational attainments and their understanding of ballistics. Different criteria are relevant in an age of ICBM's. "Practical experience" too often means learning the rapidly obsolescing methods of one's predecessors, and learning them, moreover, slowly and inefficiently.
2. That continued reliance on correspondence tuition for theoretical instruction is keeping the English accountancy profession in a unique state of educational backwardness vis-à-vis every other major profession in Britain or anywhere else.
3. That, assuming the system of training under articles is to be retained, some means must be found within it of extending the limited opportunities for experience which can be found in all but a small number of large firms. The evidence which the Committee presents to show that "well over half the present students are receiving their practical training in the smaller practices" (para. 7) gives added urgency to this need.

The first and second of these conclusions hang together, for the educational backwardness to which I refer is undoubtedly to be explained by the relative lack of importance attached to theoretical studies by the leaders of the profession, as compared with the exaggerated importance attached to practical experience. There is little if any recognition in the Report that it is the quality of experience, not its quantity, that matters, and that its quality and what is got out of it are largely determined by the quality of the theoretical preparation for it. It is clear that the Committee, when it thinks of theoretical studies, thinks of them always as merely preparation for the examinations. Thus, in rejecting a suggestion by the Association of University Teachers of Accounting that full-time attendance at classes at selected technical colleges for a total (though not a continuous) period of eighteen months should replace correspondence courses, they say, "We do not see how periods of the length suggested could possibly be spared . . . without giving tuition for the examinations a disproportionate place in the system of training as a whole" (para 147). Tuition for the examinations is simply not the point. It is preparation for professional life that matters. It is precisely because the Institute seems to be incapable of thinking about theoretical study without relating it to examinations that it never talks the same language on this point as its educationist critics.

The proposal for "block releases" for full-time study at the major technical colleges and the establishment by the Institute of its own school of accountancy seem to have been the only serious alternatives to correspondence tuition which were put to the Committee. They are probably the only immediately practical alternatives worth serious consideration. The Committee's rejection of the idea of an Institute school of accountancy (except as a last resort), on the grounds that it would be excessively costly and would replace one undesirable educational monopoly by another, is, in my opinion, sound. The rejection of the "block release" idea is quite another matter. The period of eighteen months originally suggested by the Association of University Teachers of Accounting for these courses was based on the assumption that for non-graduates the period of articles would remain at five years. Had it been contemplated that the Committee might recommend a reduction to four years for more mature non-university recruits to the profession, some modification of the proposal might have been offered. The Committee itself considers such a modification and concludes that "from the aspect of time alone, this might be a feasible proposition" (para. 148), but

having cleared away one difficulty, it raises another. "We are doubtful," it says, "whether it would meet the requirement, which we rate high, that, as a feature of professional upbringing, the initiative for study should be left largely with the articled clerk." I cannot believe that anything quite as absurd as this has ever before been said about professional education. Either it amounts to a wholesale rejection of formal education beyond the school-leaving age, in which case all our universities, technical colleges and adult education activities must be held to be a vast misdirection of effort; or it implies that the Committee thinks that the value of education is enhanced by making it irksome, drab and haphazard; or it stems from a failure to understand just how much room for initiative a well-devised educational programme based on oral tuition can leave to students of articled clerk age. There is not much doubt that this last explanation is the true one, for the disparaging references later (para. 158) to what the Committee quaintly calls " 'classroom' teaching" make it clear enough that it thinks of formal education as consisting wholly or mainly of lectures or some other form of instruction in which the student plays a completely passive role. No one familiar with modern education could harbour such a misconception. Limitations of space make it impossible here to discuss the numerous ways which exist to transform " 'classroom' teaching" into an exciting experience for both teacher and student—case discussions, role-playing, straight discussions of theoretical issues, problem-solving, game-playing, and others. Though the Committee seems to think otherwise, even private reading has its place in such a programme! Indeed, when the Committee describes the arrangements it favours—"ideally we should like to see a pattern of examination study [here we are again; not study, but examination study] in which the main emphasis is upon private reading and writing under a tutorial guidance which includes appropriate contact with both tutor and fellow students, the whole supported by a programme of lectures designed not primarily to impart knowledge but to embellish it" (para. 158)—it is describing a university scheme of study. Whether an abbreviated technical college programme would achieve this could only be established by careful experimentation. But if such experiments are to be tried, it will apparently have to be without the support or even the blessing of the Committee; which means, of course, that the experiments will not be made.

**The Examination Syllabus**

The Committee's recommendation that some work in elementary economics and statistics should be included in the syllabus is to be welcomed, for one of the most serious criticisms that can with justice be levelled against the education and training of chartered accountants is that it is extremely narrow and does little to equip the men subjected to it to understand questions of public economic and fiscal policy on which later they are frequently expected to pronounce judgments. The increased attention to be given to management accounting is also to be applauded. Whether the curriculum changes go far enough is a matter for debate; but half a loaf is better than no bread.

On the other hand, the Committee did not react favourably to various suggestions made to it that some element of flexibility should be introduced into the examinations. There is really no good reason why all articled clerks should study precisely the same subjects to precisely the same depth, as the present curriculum requires. It is easy to agree with the Committee that "the qualification of a chartered accountant should continue to be a general qualification and that specialisation should follow admission to membership and not be permitted or encouraged during articles" (para. 113). But while the A.C.A. should properly continue to be a general qualification, this does not mean that there is no scope at all for allowing some small degree of latitude to articled clerks to pursue some subjects in greater depth than others, while requiring a reasonable minimum coverage of all subjects in the curriculum by all candidates for membership. Thus one suggestion was that candidates with a special interest in professional practice might carry their study of auditing to a higher level than their study of management accounting, while candidates with a special interest in industrial accounting would reverse this process. This could hardly be called specialisation. It would merely be providing some slight opportunity for articled clerks with different enthusiasms to indulge them a little, without prejudice to the value of the A.C.A. as ensuring a reasonable degree of competence in all fields. The admitted fact that many men do not have definite career intentions at the time they qualify has little to do with the matter. Anything which stimulates intellectual activity is worth trying, and indulging a student's personal interests to a limited extent is one way of doing this. However, on this point as on so many others, the Committee takes a negative attitude.

**The Role of the Universities**

It was no surprise to find the Committee saying of the scheme whereby most of the universities in England and Wales (other than Oxford and Cambridge) provide courses leading to a degree based on accountancy, economics, and law that "the only conclusion we can reach is that even after fifteen years there is still not enough evidence to show whether in general the scheme should be encouraged or abandoned or changed or left as it is. We therefore favour leaving it substantially as it is, pending still further experience of its value" (para. 132). Certainly the Report offers little enough evidence to support any conclusion at all, but whether this is because the evidence cannot be obtained or because the Committee did not seek it is not clear. The only statistic adduced, that out of the forty-two "scheme" graduates who entered into articles in 1952 only 60 per cent. passed the final examination at the first attempt, as compared with 81 per cent. of other U.K. graduates, while it certainly reflects no credit on the "scheme," must be regarded as having little evidential value. Such a small number of graduates, picked

from a single year, is no basis for an argument (and indeed the Committee does not make it one). For the rest there is only a vague reference to "such slender evidence as we have been able to get from professional firms," again inconclusive. Since the "scheme" is the only attempt to break new ground in education which the profession has seen since 1880, it might have been thought to be worth closer study.

Unfortunately, the Committee's apathetic attitude to the Universities Scheme is very much in line with the Institute's attitude of indifference to university studies in accounting during the last decade. Pious words like the Committee's "We should very much like to see the Institute more closely identified with the Universities" (para. 175) have to be read in the light of the Institute's palpable failure to do anything to show that it shares this sentiment, and of a similar failure on the part of the large firms in the profession. The contrast with the position in the United States is quite striking. There, several of the major firms of C.P.A.'s have established educational foundations to support prizes and fellowships in accounting at the universities. To take one or two examples, the Haskins and Sells Foundation annually makes seventy-five awards of $500 each in colleges all over the country for scholastic excellence in accounting, as well as annual grants of $1,000 each at thirty colleges to assist junior teachers of accounting to pursue higher studies; the Price, Waterhouse Foundation makes a number of grants each year to the accounting departments of university schools of business, ranging in amount from $1,000 to $5,000, to be spent at the discretion of the departments, but most commonly to assist a junior teacher with advanced study or research, in addition to providing a stipend and facilities for extending the practical experience during university vacations of a small number of teachers who can benefit from such arrangements. For many years until recently, the Arthur Lowes Dickinson Fund, established at the Harvard Graduate School of Business Administration by Price, Waterhouse & Company, made possible the Dickinson Lectures in accounting and related fields. Continuing this list of benefactions by American professional firms in support of accounting education, the Arthur Andersen Foundation makes ten awards each year of $5,400 to enable junior teachers to pursue advanced pre-doctoral studies and also pays their tuition fees for the year; Arthur Young & Company make a number of grants of $1,000 each year to graduate students of accounting; Lybrand, Ross Bros. and Montgomery help teachers to gain experience while paying them a stipend; the Institutes of Certified Public Accountants in a number of states award prizes for outstanding performances by university students of accounting. This list has no pretensions to completeness; and many other ways could be cited in which the American accountancy profession shows by deeds, not words, that it considers accounting education to be a good investment. The contrast with the position in Britain is made even more striking when it is recalled that of the three notable British benefactions in this field since 1945, two—the instituting of the Leverhulme Fellowships in management accounting and the founding of the Chair of Accounting at the University of Bristol—were financed by industry, not by the profession, while the third, the P. D. Leake bequest — the only one with which the Institute was associated—was used primarily to promote the study of economics.

A comparison of the position of university teachers of accounting in Britain and the United States is also revealing. In the United States, teachers sit with their professional and industrial fellows on the governing bodies of the various state Institutes of Certified Public Accountants, while in the American Institute of Certified Public Accountants itself they are well represented on the governing body, on the research staff and on the education and examinations staff. By contrast, in Britain teachers are entirely without a voice on the Council or Committees of the Institute, and they do not even play more than a subordinate role in the conduct of the examinations. The very composition of the Committee on Education and Training, which included not a single member of the Institute whose daily work is primarily concerned with education, is in significant contrast with the composition of the Commission on Standards of Education and Experience for Certified Public Accountants, which reported in 1956, and whose twenty-four members were made up of twelve practitioners, six professors of accounting, four deans of university schools of business, and two others, one a former dean and the other a university vice-president.

These are the facts against which we must judge such statements as the Committee's "We should very much like to see the Institute more closely identified with the universities." Deeds, or the lack of them, speak louder than words. Well may Mr. Bertram Nelson say, in his Statement of Reservations, that "any chartered accountant might hesitate to take up work for which so little support was available from his profession" (page 84).

**The Proposal for Short Courses**

Even this Committee cannot declare itself wholly satisfied with the present arrangements for tuition. "The general pattern of study," it says, "has settled into a comparatively narrow groove. . . . Looking to the future . . . we cannot believe that this situation is beneficial" (para. 156). And what does the Committee offer us as a cure for this deep-seated malaise? A three-weeks introductory course in book-keeping! This is as sensible as giving an aspirin to a person suffering from malnutrition.

But let us examine the Committee's proposals for short courses with the seriousness which the problem deserves. The introductory course in book-keeping for recently articled clerks is the only one which it is proposed to make compulsory. One does not have to take sides for or against such a proposal, for it really has very little to do with education in any important sense. If there is one thing that can be adequately handled by correspondence tuition, it is probably the inculcation of double entry. That an early knowledge of book-keeping is necessary for a clerk to benefit quickly from his office experience is

obvious enough; but it does not follow that for such a pedestrian purpose oral tuition has much advantage over correspondence. I have already argued that the Committee misunderstands the purpose and nature of theoretical studies. In this proposal the same misunderstanding is apparent.

When we come to the later optional courses of oral tuition, lasting at the most for three weeks in each case, which the Committee recommends in connection with preparation for the proposed Parts I and II of the Final examination, it is obvious that the Committee has a much less clear conception of their purpose than in the case of the introductory course. They are apparently "designed to set the stage for study, to indicate the points of difficulty which are likely to be encountered, and to a limited extent to dispose, in advance, of certain matters on which for one reason or another many students spend time unprofitably" (para. 166). I confess that here, to my astonishment, I find myself in agreement with Mr. Coulson when he remarks in his Statement of Reservations that "It may be that the Committee has in mind . . . an attempt to clear misconceptions before misconceptions have arisen in the minds of students, but such a proposition—the clearance of errors before they have arisen—will, it is submitted, hardly stand up to consideration" (page 91).

The fact is that short courses have their uses, when it is desired to achieve some quite limited objective—to teach computer programming, or to give foremen some knowledge of work study, say, or to give a "shot in the arm" to mature men whose formal studies lie far behind them. But articled clerks do not need a shot in the arm. They need a nourishing intellectual diet for the long pull. They need to acquire the habit of asking questions and not accepting easy answers. To superimpose short courses on to a curriculum which continues to be based on correspondence tuition is merely to tinker with the problem. However, it probably cannot do much harm. At the best, it might foment even more discontent on the part of articled clerks with their otherwise drab diet, and in this thought at least there is hope.

**Practical Experience and the Articled Clerk System**

"The system of articles," says the Committee, "has been described to us in a memorandum by one group of Institute members as being 'encrusted with sentiment, like the Maypole or Beefeaters or the Horse Guards' " (para. 26). That this assessment of it is no less than just is amply borne out by the Committee's own approach to the system. "For our own part," they say, "we are convinced that the prime requirement for prospective members of the Institute is a good professional upbringing. This is not at all the same thing as tuition for written examinations. . . . Nor is it the same thing as the mere provision of practical experience. We believe that it goes much deeper, to the roots of professional ethics and outlook. . . . Upbringing implies the existence of a 'parent' and of a relationship with him which in character is essentially different from that between employee and employer or between pupil and school-teacher. We know of no better means whereby this relationship can be created than by the system of articles" (para. 27). I believe this appraisal of the system to be pure mysticism and not a rational judgment at all. It implies that the medical profession, which somehow manages to get along without this mysterious "relationship," has a lower standard of professional ethics or a poorer professional outlook than does the accountancy profession; that barristers (who are content to call their protégés "pupils"), officers of the armed forces, ministers of religion, university dons and stockbrokers, none of whom confuse the force of example with "parenthood," are inferior to chartered accountants because they obtained their professional upbringing by means other than those which we inherited from our solicitor forebears. High professional standards, of which chartered accountants are rightly proud, are not the monopoly of any one profession, nor are they the product of any one system of training, and it is nonsense to pretend otherwise. Only when this point is acknowledged can the system of articles be seen in perspective and its shortcomings prescribed for.

Basically, there are two weaknesses in the system of articles. The first is that there is no reason why a man who is a capable practitioner should also be a good teacher, or even why he should have any particular interest in the education and training of articled clerks. That so many members of the Institute do in fact have enthusiasm for instructing their successors, and the skill to do so, alone makes the system as effective as it is. One day, perhaps, accountants and lawyers will discover what most other people have known for a long time, that training is a job for experts and, though something does rub off from principal to clerk in the rough and tumble of professional life, this is a slow and inefficient way of imparting skills. I doubt whether, within the limitations of the system of articles, much can be done to remedy this weakness.

The second basic weakness is that, in any but the largest practices, it is impossible to provide all-round experience, and there may be serious gaps both in the type of work to be done and in the type of clients to be served. It has always been possible to mitigate this weakness in the system by arranging for articles to be transferred from one firm to another when they were part-way through. The provision whereby articled clerks could be seconded for up to six months to an industrial concern opened up a further possibility of strengthening the training offered. Not much use has been made of either of these remedies. Transfers of articles are probably not welcomed by practitioners, and a maximum of six months in industry is not long enough to be really useful.

The Committee's recommendation that it should be made possible to second an articled clerk from his own firm to others without a formal transfer of articles is a step in the right direction, but its value is greatly reduced by the limitation of the periods of secondment to six months in all. The Committee considers that transfers of articles, while they should continue to be permitted, should not be advocated: it declines to recommend that the six months' limitation on service in industry should be

raised, in spite of the fact that it was "very strongly pressed" to do so (para. 87); and it rejects what was probably the most effective proposal put to it for extending the range of experience obtainable within the articles system, namely, that it should be possible for a clerk to be articled to a group of firms organised for this purpose so that he could move from firm to firm within the group, learning what he could from each, on the lines of the group apprenticeship schemes which make it possible for small firms in industry to provide effective training for apprentices. The scope of this arrangement could be usefully extended by including members in industry and members in the public service in such groups.

This generally negative reaction on the part of the Committee to all attempts to increase the effectiveness of the system of articles stems from the "mystical" theory of articles to which I have already referred. To quote the Committee, "Our attitude to all these suggestions is governed by our conviction, already expressed, that the prime requirement for an articled clerk is a good professional upbringing and by a belief that this upbringing can best be secured in the circumstances of a special relationship between the principal and his articled clerk which is essentially not casual or transient but carries mutual obligations and responsibilities for the whole period of the articled service. To encourage changes of principal is to undermine the continuity of this relationship" (para 84). It is a pity that the Committee was unable to see that, if there is something valuable in a continuing relationship between principal and clerk, it is a continuing sense of mutual responsibility, but that this does not imply that the clerk's experience has to be limited by the facilities which can be offered by a single firm, any more than the continuing mutual responsibilities between a student and his tutor at a university means that he may not be taught by other teachers or take work outside his tutor's department. Within a group apprenticeship scheme, the *primary* responsibility can still be between the clerk and a single principal, if this is thought to be important.

**Conclusion**

Perhaps once in a generation, an opportunity for educational advance presents itself which, if taken, becomes a historical landmark. The Education Acts of 1870, 1918, and 1944 were such occasions. For the British accountancy profession, the 1961 Report of the Committee on Education and Training might have been such another. Instead, it is notable only for its timidity. Whenever it can find specious reasons for opposing change it does so. A good example of this reluctance to innovate is seen in the Committee's rejection of the proposal that the Institute ought to appoint a Director of Studies. Its objections to this proposal are almost unbelievable. "It would concentrate more responsibility on a single individual at the centre than we should think desirable," and there would be a "tendency to restrict competition in new ideas and new methods" (para. 177). In fact, of course, the Director would not only be anxious to stimulate and collect new ideas, from whatever source they came, but he could also do much to remedy the weakness of the present situation, where "what is everybody's business is nobody's business." Perhaps the real objection to having a Director of Studies is that he would presumably have to be someone with a professional interest in and knowledge of education, or at least he would soon acquire a professional attitude. For some reason, the Institute has always preferred to take advice on its educational policy from amateurs.

Another example of specious reasoning is to be seen in the Committee's rejection of the idea that the Institute should prescribe a minimum scale of remuneration for articled clerks. Whatever the merits of this proposal (on which I have no strong views myself), I can make no sense whatever of the Committee's argument that "this would have a 'levelling down' as well as a 'levelling up' effect" and that it "would be a measure which might restrain the scale of reward for the best candidates" (para. 209). Why should a *minimum* scale restrain the reward of the best candidates? But the full absurdity of the Committee's argument is seen only when one reaches the next paragraph, and finds that it has turned a nimble somersault and expresses its "anxiety lest, for lack of adequate information, some principal may be led by the competition from industry and elsewhere to offer articled clerks scales of remuneration which are *excessive*" (para. 210, italics supplied). What is one to make of such logic?

Many thousands of articled clerks will be subjected to the profession's archaic training methods before the system is again the subject of review. This is a sobering thought; for a great opportunity has been lost, and the price will be paid not by those who are already members of the Institute but by those whose professional education might have been but now will not be worthy of a great profession.

# A New Approach to Company Law

*By W. H. D. Winder, M.A., LL.M.*

THE REFORM OF English company law is in the air. It might be an exaggeration to say that the whole of the present Companies Act is in the melting-pot, but it does seem certain that in the next year or two we shall see some far-reaching proposals for its amendment. It is therefore opportune to consider the new approach to company law embodied in an elaborate report and draft code Bill drawn up by Professor L. C. B. Gower in his capacity as a Commissioner appointed by the Governor-General of Ghana. The *Final Report of the Commission of Enquiry into the Working and Administration of the present Company Law of Ghana* (Crown Agents for the Colonies, 4 Millbank, London, S.W.1, 40s.) is of interest to all concerned with the United Kingdom legislation. Some of the detailed suggestions in the report relate to conditions peculiar to Ghana, but the bulk of the report is generally applicable to English company law.

After studying the report it is easy to agree with the comment made on the draft report by the United States of America State Department:

> The report is a notable achievement and represents a very careful and perceptive blending of many provisions of British, American, and Continental law as they relate to the formation, operation, and the regulation of companies, not only with respect to their ordinary activities but also in relation to raising of finance. The draft law reflects a fine balance between features necessary to efficient operations by companies, and that adequate disclosure of their affairs and operations so necessary to informed investment analysis and decision requisite to the building of investor confidence and the development of sound capital markets. It also provides a measure of control by the government necessary to the proper development of corporate enterprise. In summary, the proposed law and the accompanying commentary represent a model statute and a compendium on company law and administration which should also prove invaluable in the development of company law reform in other jurisdictions.

The principal feature of the Draft Companies Code which Professor Gower considers distinguishes it from other Acts based on the English model is that it attempts to codify company law and not merely to superimpose a number of statutory rules upon an existing body of common law and equity. This causes the draft to be long, but the added length represents an enormous gain in clarity and usefulness. No one reading the English Companies Act, 1948, can glean a proper understanding of company law. Nowhere are the fundamental principles enunciated. Exceptions to rules are stated but, all too often, not the rules themselves. "These principles and rules", says Professor Gower, "have to be extracted from a study of innumerable decided cases—some of which are virtually irreconcilable—and the true position emerges, if at all, only when the Act is read against the background of these decisions." This makes for difficulty even in the United Kingdom, where there are a large number of highly trained lawyers and accountants and where law reports covering the relevant cases are readily to hand.

The treatment of the duties and powers of directors is just one striking example of how the Code covers company law more fully than the Companies Act, 1948. The Code puts into legislative form the fiduciary duties which directors owe to their companies, whereas the Act makes no attempt to codify these duties, their ambit being left to be culled from a mass of judge-made law. Of course, many English specialised Acts, like the Companies Act, are not comprehensive codes of law; local government and banking legislation are other examples. Yet how often the lawyer hears specialists in such fields say, "I know my Act," or words to that effect. And the speaker usually does; he often knows the statutory wording better than the lawyer. But it is rarely sufficient to "know the Act."

The Code could easily have gone even further in including law which is not to be found in the Companies Act, 1948. Some additional parts of the law applying to corporations in general, as well as to companies, might have been useful, although there may have been some practical difficulties in including much "corporation law" in a code devoted to only one species of corporation.

### Ownership and Control

The rules in the Code which protect creditors, investors, and the general public are stricter than those in the English legislation. On the vexed question of non-voting shares and of weighted voting rights, it is proposed that non-voting equity shares should be forbidden, whereas the traditional pattern of English-type company law is to allow complete freedom so that one class of shares, even equity shares, may be completely deprived of votes, or the voting may be weighted in favour of one class. The traditional answer to the suggestion that this is undesirable is that the other shareholders purchase the shares with their eyes open and have only themselves to blame if they get hurt. Professor Gower comments: "This robust affirmation of *laissez faire* principle hardly

seems attuned to modern ideas. Furthermore, the objections to non-voting shares are not merely based on unfairness; they lead to a number of abuses which seem undesirable in the general interest. For example, they make it impossible to get rid of inefficient management, and enable the existing directors to do more or less what they like with funds which do not belong to them but to the company as a whole." The traditional principle, which has never been accepted by most Continental systems, has recently been rejected not only by India but also by such a staunchly private-enterprise country as the Union of South Africa. Even in England opinion is hardening against non-voting shares. They represent the extreme separation of ownership and control.

The Code provides for greater publicity through publication in the official *Gazette*, and an attempt is made to prevent companies from trading when they are grossly undercapitalised. There is a requirement for a minimum paid-up capital. Such a requirement is almost universally prescribed, except in England and those countries with Companies Acts based on the English model. The comment is made that undercapitalisation is the major cause of business failure, and that people should not carry on business with limited liability unless they are prepared to put a minimum of assets into the business to meet its debts. The relevant section of the Code is modelled on the American Model Business Corporation Act, and provides that a company limited by shares must not commence business until it has a paid-up capital of at least £G500, of which at least £G100 must be in cash. These limits are considered to be the very least that should be demanded if limited companies are to be placed on any reliable footing. The possible objection that this is discrimination against small business is considered to be without foundation. Under the Code no one is being prevented from carrying on business, however meagre his resources. All that is being said is that if he wishes to shelter under the mantle of limited liability he must give his company some guarantee of credit-worthiness.

The most important innovation in the Code is the introduction of compulsory no-par-value shares. As Professor Gower rightly remarks, "The main obstacle in rendering the true nature of a share in a company readily comprehensible to the man-in-the-street is the fact that at present the law insists that a nominal value should be attached to it." This may not represent the true worth of the share even at the date of its original issue, and is extremely unlikely to do so after the company has been trading for some time. The reason for requiring shares to be given a nominal value is purely historical: it was thought to be a convenient device for measuring the member's liability at a time when it was envisaged that shares would be of large nominal value, of which a substantial proportion would be left uncalled. It is now customary for shares to have a low nominal value, for the whole to be called up shortly after issue, and, frequently for the issue price to be greater than par. With this change in practice par values have outlived whatever usefulness they may once have had.

**Majority and Minority Rights**

Shareholders who lack control of the company, whether they be a numerical majority or minority, often need some means of bringing to an end a course of conduct which, without being definitely illegal, is nevertheless oppressive. The old remedy in such circumstances was to petition for a winding up order on the ground that that was just and equitable. The newer remedy is an appeal to the court under Section 210 of the Companies Act, 1948, on the ground of "oppression." The Code seeks to improve upon these remedies, which are unnecessarily tied up with winding up, and the idea of "oppression" of a minority is supplemented by further words designed to make the ambit of the Section wider and clearer. It is not necessary, as it is under the English Act, to show that the oppression or abuse of power is such as to make it equitable to wind up the company.

The Code provides that the court should have a much freer hand to annul acts and resolutions that it considers unfair than it has under the existing law. The test of invalidity is to be discrimination or other unfairness, and not the nebulous and misleading test of whether those who voted did so "*bona fide* in the interests of the company as a whole." These remedies, it is proposed, for a "fraud on a minority" should be available to debenture-holders as well as to shareholders.

As regards actions by individual shareholders, English law qualifies their rights by the rule that if the act complained of is an irregularity which could be put right by an ordinary resolution of the company an individual member may not sue. The Code removes this qualification on the principle that a member should be allowed to institute proceedings to attack any irregularity, whether remediable by resolution or not; it is considered that this is the best method of assuring that the rectification does take place if the majority are prepared to rectify. The litigation will then become futile and will be discontinued.

On the question whether companies should have power to buy their own shares, Professor Gower points out that the English rule—which, in general, forbids this—has not been followed in the U.S.A., where companies have always exercised such a power subject to various safeguards. He lists the main objections to allowing a company to traffic in its own shares as:

(*a*) that this reduces capital;
(*b*) that it can be used by the directors to enhance their own control, to increase the value of their own holdings, or to misuse their inside information;
(*c*) that if indulged in imprudently it may reduce the company to insolvency.

Objections (*a*) and (*c*) can be met, just as they have been met in the case of redeemable preference shares, but objection (*b*) cannot be met completely. "Despite this", Professor Gower thinks that "there is a strong case for allowing companies to purchase their shares", and his Code provides for the introduction of a general power to re-purchase and re-issue shares subject to stringent safeguards.

**Directors' Powers**

It is generally recognised that there are certain transactions which directors ought not to undertake without consulting their shareholders. The Companies Act, 1948, leaves this to the judgment of the directors and does not lay down any legal obligation. Boards of directors often seem to assume that if they have power to undertake a transaction it is their right and duty to undertake it, and that the shareholders have no right (moral or legal) to be consulted. This has in England given rise to a number of incidents which have caused disquiet. The Code follows the South African Companies Act and the Indian Companies Act by making it a legal obligation to consult the shareholders in certain circumstances.

The first case where directors must not act without the approval of an ordinary resolution of the members in general meeting is on a disposition of "the whole, or substantially the whole, of the undertaking" of the company. This provision meets the view of the Association of Investment Trusts that the shareholders have a right to be consulted before any disposition takes place the effect of which might be to produce a fundamental change in the nature of the company's business. Secondly, however, an alteration in the whole basis of the business may be brought about not only by a sale of the undertaking but equally by an issue of a controlling block of shares to some other concern. It is transactions of this type that have recently given rise to alarm in England. The Code seeks to prevent this also.

In seeking to define the limits of the fiduciary relationship between a director and his company, the Code makes it clear that he should not consider *merely* "the best interests *of the company* as a whole." The directors must not think only of the welfare of the company as an abstract entity. As is remarked in the comment on the Code, it has recently become almost a cliché for directors to declare that they owe duties to the members of the company, the employees, the consumers of the company's products and the nation as a whole. But the present English law does not appear to support this. The Code goes beyond the present law by stating that a director shall act in what he believes to be the best interests of the company as a whole *so as* to preserve its assets, further its business, and promote the purposes for which it was formed. And it is expressly stated that a director "may have regard to the interests of the employees, as well as the members of the company."

**Public control: Registrar's powers**

"It is now widely recognised in all countries," says Professor Gower, "that the only effective way of preventing impropriety in the management of corporate enterprise is to ensure effective supervision by some government agency." Whatever may be thought of the detailed conclusions resulting from this opinion, there will be general agreement with the following comment:

> The idea that shareholders can be relied upon to supervise management and to take effective steps to protect themselves is an anachronism . . . Even if shareholders have the determination and the financial means, they will often lack the inside knowledge of the facts which is needed before any legal action can be commenced. Accordingly the tendency in all countries is to provide wide powers of investigation and inspection.

The provisions of the Code constitute a compromise between the English solution and the solution adopted in Uganda. The English Act vests powers of inspection in the Board of Trade, but provides that the Board must appoint an inspector if ordered by the court. The Code gives the Registrar certain limited and preliminary powers to investigate and to take proceedings if this reveals impropriety. If, as a result of this investigation or otherwise, it appears that a full-scale investigation is needed, application must be made to the court.

In order to ensure that the sections of the Code relating to the maintenance and auditing of accounts are being duly complied with, the Registrar is given power to make spot checks. It is thought that such a power will expose any fraudulent and incompetent auditors and enable the Registrar to remove them from the panel of approved auditors. The objection to this proposal "on the ground that it was an undue infringement of the liberty of the subject and detrimental to the status of the auditors' report" Professor Gower did not regard as well-founded. He thinks that no one who is keeping proper accounts should object to satisfying a responsible official, such as the Registrar, that he is doing so. The only objections are likely to come from those companies which are not.

**Conclusion**

Sufficient has been said to give an idea of the originality of this Draft Code and accompanying comments, some of which are substantial essays in company law and company law reform. Innumerable points of detail are fully dealt with. It is proposed that a number of obsolescent technicalities be removed—for example, the rule that a company cannot ratify pre-incorporation contracts, and the *ultra vires* doctrine. Documentation is simplified in a number of ways, notably by the merger of the memorandum and articles into one document, the Regulations; and uniformity and brevity are encouraged by providing, for instance, that, in the absence of contrary provision in the Regulations, a company shall have certain powers and shall conduct proceedings in a certain manner.

Since the nineteenth century there have perhaps been no one-man attempts at codification and law reform comparable in scale to the present one: one is at once reminded of the efforts of Macaulay and Pollock for British India. And Professor Gower has risen to the opportunity of suggesting greater reforms than were open to those codifiers. The advantages that an individual lawyer—given the right man—has over a committee are clear from this report. There is no need to compromise with the lowest common denominator of thought or expression, or to pool divergent reasons. On the contrary, there is scope for a really fresh attitude to the whole subject consistently and fully worked out.

***Accountant at Large***

# Psyche in the Office

THE STUDY OF the arts of management progresses. Like so much other new learning, much of it is easy enough to dismiss as matter familiar to the rule of thumb of our fathers and grandfathers, now formalised and promoted to the status of a set subject. As with other new subjects, there has been a tendency for quacks to move in, to their immediate profit and the longer term discredit of their speciality. To recognise established wisdom dressed up in a new jargon is to feel an instinctive distrust of the body of learning in which it is included. There is nothing new in all this; new studies have often enough before gone through the same early difficulties. And their record is plain enough evidence that it is wise to check one's scepticism. From our own experience, in business and in life at large, we ought to appreciate that the very act of formalising knowledge can produce discovery. Mankind has known for long enough that worry killed the cat; but the doctors still had much to learn about the precise relationship between stress and ulcers.

The health of the business executive has become a study in itself; the health of his employees is a cognate subject. In the main, students have been concerned with physical rather than mental health; even in the case of ulcers, it has been the physical result of mental stress that has interested them. It was the more refreshing to read of the conference organised lately by the Industrial Welfare Society to study the problems of neurosis in industry, and especially of the address given to the conference by Dr. L. S. Davies. Dr. Davies is the deputy medical director of the Roffey Park Neurosis Unit, and he had things to say that should wring many withers. He is reported to have commented, for instance, on business men who display the symptoms of depressive neurosis by taking home more and more work, postponing difficult decisions, and refusing to delegate authority. They become busier and busier doing nothing, and, he suggested, are really madmen of high intelligence.

There is need, Dr. Davies believes, for much greater care than is usually exercised in fitting men to their work. Academic qualifications are of no use if their possessor cannot handle people and is put into a job that requires him to do so. And on the figure he quoted, of 26 million man-hours lost each year through psycho-neurosis, it would certainly seem reasonable to believe that there is a place for the psychologist in business.

And, indeed, alarmed though we may momentarily be at the thought of yet another aspect of management, that art which so many of us used to think we had born in us, the validity of this one is clear enough to anyone who has even briefly considered what makes his colleagues tick. Jones is sunny, Smith is sour. The difference between them may reflect the differing states of their livers; but, quite otherwise, it may mirror the different characters of Mrs. Jones and Mrs. Smith. To see a colleague come to the office, morning after morning, drawn and furious with everyone around him should set the sympathetic wondering whether there is not a regular breakfast domestic row. And of course that is the kind of routine that can eventually provide Dr. Davies with a new patient.

In the United States, we are given to understand, employers take a long hard look at the wives of their more important employees. (To put it like that is to suggest that in Britain no such thing is ever done; but the over-simplification is perhaps justified by the clear impression that comes over that the Americans do it more deliberately and more consistently than is usual here.) We may wonder whether they look at Mrs. Smith from the point of view of breakfast time quarrels as well as from the more easily assessable standpoint of social adaptability. Recollection of the charted horrors of *The Organisation Man* suggests they probably do.

Dr. Davies went beyond the immediate family environment when he suggested that the man who has spent his youth fighting against his father's domination will "as sure as God made little apples" gang up against authority when he grows up. To look at father is to go further than the employer can easily do—further, indeed, than he wants to; but the possibilities are still interesting. The Oedipus complex would take it a little further still; and doubtless one could propound other, more typically business, complexes. Why not a Croesus complex for the failed millionaire?

There is certainly a place for the psychologist in the making of the good organisation man, the well-rounded conformist beloved of the large-scale employer in other lands besides America. And, of course, here is the double danger. We have been warned often enough in the past few years of one of them: that conformity is not necessarily the best prescription for business success. We can most of us realise that quarrels with father, quarrels with wife, unruly children, even an obsessive interest in one's work, can on occasion produce the dynamic we need to have amongst us. The second danger stems from realisation of the first. If we allow it to induce too strong a scepticism in us, too marked a distrust of the new formalisations, there is a real possibility that we shall lose a useful baby in throwing out the bath water we dislike.

It is perhaps worth saying here that Dr. Davies's address, as reported, contained none of the extravagance that a light-hearted article may have imported to embroider his theme. Certainly none of the "madmen" he described can afford to ignore the counsel such men as he can give us.

**An address presented at the Summer Course of The Institute of Chartered Accountants in England and Wales at Christ Church, Oxford, on July 14, 1961.**

# Services to the Private Company and Its Members

*By A. B. Snow, F.C.A.*

## Part I
## INTRODUCTION

FOR THE PURPOSES of this paper, "private company" means a company which is a private company within the meaning of the Companies Act, the share capital of which is held by individuals (as distinct from being held by a holding company or its nominees), and which is engaged in trading with a view to profit.

Companies of this description probably constitute the larger part of the clientele of most accountancy practices, and it is against the background of his many services to this type of company, its directors and its members, that the practising accountant has acquired a relationship with his clients which is akin to that traditionally occupied by the family solicitor—that is to say, he is the trusted guide, philosopher, friend, and confidant to whom his clients turn both in prosperity and adversity, and whose opinion they seek on matters both business and personal, both financial and otherwise.

This paper sets out to examine the services which the practising accountant renders to the private company and its members, and to consider, in certain respects, how developments within the profession are resulting in those services becoming more and more extensive.

The primary service which the practising accountant renders to the private company is manifestly that of auditing (and, most probably, preparing) its annual financial accounts. Having completed those accounts, he will attend upon the directors and either formally or informally, according to the nature of his relationship with them, he will tell them in detail of the results of their year's trading and give them an account of their financial position at the year-end.

In that connection, there can be few practitioners who have not had the experience, after having explained that the sales are 12.9 per cent. up on last year, that the profit on prime cost is 1.2 per cent. up on last year, that the trading profit is 2.3 per cent. down on last year, and that the bank overdraft is £5,000 up on last year, of having his clients turn upon him and say: "If we've made as much money as you say we have, where is it?"

That is a question which can take the accountant by surprise, but he must acknowledge that the answer to it is not immediately apparent from the accounts. He knows that the company has made a profit of £$x$, and he knows that it should therefore be somewhat near to £$x$ better off than it was last year, but the directors only know that the company is hard up, that the bank manager is pressing for a reduction of the overdraft, that they are unable to draw their own salaries in full, and that they cannot raise the money to buy a certain item of capital equipment which they badly need—in short, they are quite unable to see that the year's profit has made any difference to them.

In those circumstances, "Where is it?" is manifestly a very reasonable question, and I take it as my cue to refer to the first of the additional services which the accountant can render to his private company clients—that of making the results of his work more intelligible to them, and, thereby, more useful to them.

### Specimen Accounts

As many of the points which I shall deal with can more easily be brought out by reference to a hypothetical case, I have drawn up a set of accounts of Oxcourse Manufacturing Co. Ltd. in the form of the manufacturing account, trading account, profit and loss account, and balance sheet, which are reproduced at Appendices A, A1, A2 and A3 (pages 418-423).

These accounts are those of a small manufacturing company, and their figures are representative of those of very many small private companies—showing increasing turnover, decreasing profitability, a bank overdraft hovering at or above its limit, and with the directors in the position of being unable to draw their salaries in full.

## Part II
## INTERPRETATION AND COMMUNICATION

One of the major truths which strikes the accountancy practitioner sooner or later in his career is that financial accounts in their conventional form are by no means the ideal instrument for the communication of information from one mind to another. Those accounts tell a story, but they do not necessarily tell the whole story—and sometimes the story which they do tell is in a language with which the client is not familiar, and with which, in fact, he has no very great desire to become familiar.

One of the services, therefore, which the accountant can most usefully render to his client, and to his private company client in particular, is to extract every particle of relevant and useful information from the accounts and to communicate it to his client in a form which is simple and, so far as possible, beyond

any possibility of misunderstanding.

In the following paragraphs, I refer to the various ways in which this information can be prepared and presented.

**Analysis of trading results**

When the directors of Oxcourse Manufacturing Co. Ltd. are confronted with their manufacturing and trading account for the year ended March 31, 1961, they will see that their sales have increased from their 1959/60 figure of £124,722 to £149,703, that the profit on prime cost has increased by £7,640, but that its percentage on sales is down from 38.3 per cent. to 37.0 per cent., that the manufacturing expenses have increased by £3,235, that the manufacturing profit is £4,405 more, but that its percentage on sales is down from 19.7 per cent. to 19.4 per cent., that its trading overhead expenses have increased by £1,691, and that its trading profit is up by £2,714, but that its percentage on sales is down from 12.8 per cent. to 12.5 per cent.

What they will not see is that the increased sales of £24,981 brought in an

## APPENDIX A

### OXCOURSE MANUFACTURING CO. LTD.

BALANCE SHEET, MARCH 31, 1961

| 1960 £ | | £ | £ |
|---|---|---|---|
| | SHARE CAPITAL | | |
| | *Authorised and issued (fully paid)* | | |
| *10,000* | 10,000 shares of £1 each .. .. | | 10,000 |
| | RETAINED PROFITS | | |
| *10,882* | Profit and loss account—balance at credit .. .. .. .. .. | | 14,972 |
| *20,882* | TOTAL CAPITAL AND RETAINED PROFITS .. | | 24,972 |
| | AMOUNT SET ASIDE FOR FUTURE INCOME TAX | | |
| *2,600* | (Schedule D 1961/62) .. .. .. | | 2,900 |
| | HIRE-PURCHASE LIABILITIES | | |
| *324* | Liability under contracts for the hire-purchase of motor vehicles (included per *contra* at net book value £2,193) .. | | 1,245 |
| | UNSECURED LOAN | | |
| *10,000* | (Subject to interest at 5 per cent.) .. | | 10,000 |
| | CURRENT LIABILITIES | | |
| | *Bank overdraft* | | |
| *7,863* | (Secured by a debenture for £8,000 on the company's undertaking, and by the joint and several guarantee of the directors) .. .. .. | 8,924 | |
| *11,331* | *Sundry creditors* .. .. .. .. | 13,264 | |
| *1,112* | *Taxation* .. .. .. .. | 1,070 | |
| | *Due to directors for undrawn remuneration* £ | | |
| *4,407* | Mr. B. C. Oxcourse .. 5,907 | | |
| *2,131* | Mr. A. D. Oxcourse .. 2,798 | | |
| *1,321* | Mr. B. B. Camcourse .. 1,639 | | |
| | | 10,344 | |
| *613* | *Proposed dividend* .. .. .. | 613 | |
| *28,778* | | | 34,215 |
| *£62,584* | | | £73,332 |

| 1960 £ | | Cost £ | Depreciation £ | Net £ |
|---|---|---|---|---|
| | FIXED ASSETS | | | |
| | At cost less aggregate depreciation | | | |
| | *Freehold Works Premises* | | | |
| *11,000* | As at March 31, 1960 .. | 14,826 | 4,026 | |
| — | Additions during the year | 1,112 | | |
| *200—* | Depreciation for the year | | 212 | |
| *10,800* | | 15,938 | 4,238 | 11,700 |
| | *Plant and Machinery* | | | |
| *11,500* | As at March 31, 1960 .. | 33,057 | 21,057 | |
| — | Sales during the year (proceeds £650) .. .. | 2,924 | 2,224 | |
| | | 30,133 | 18,833 | |
| *1,709+* | *Additions* during the year | 2,124 | | |
| *1,209—* | Depreciation for the year | | 1,324 | |
| *12,000* | | 32,257 | 20,157 | 12,100 |
| | *Fixtures and Equipment* | | | |
| *1,600* | As at March 31, 1960 .. | 2,412 | 912 | |
| *98+* | *Additions* during the year .. | 103 | | |
| *198—* | Depreciation for the year | | 203 | |
| *1,500* | | 2,515 | 1,115 | 1,400 |
| | *Motor Vehicles* | | | |
| *2,700* | As at March 31, 1960 .. | 5,238 | 2,738 | |
| *500—* | Sales during the year (proceeds £653) .. .. | 2,492 | 1,492 | |
| *2,200* | | 2,746 | 1,246 | |
| *1,134+* | *Additions* during the year | 2,924 | | |
| *834—* | Depreciation for the year | | 1,124 | |
| *2,500* | | 5,670 | 2,370 | 3,300 |
| *26,800* | TOTAL FIXED ASSETS .. .. | 56,380 | 27,880 | 28,500 |
| | CURRENT ASSETS | | | |
| | *Stocks and work in progress* | | | |
| *5,745* | Stock of materials .. .. | 8,401 | | |
| *10,212* | Work in progress .. .. | 12,322 | | |
| | | | 20,723 | |
| *19,655* | *Sundry Debtors* .. .. .. | | 23,902 | |
| *160* | *Prepayments* .. .. .. .. | | 150 | |
| *12* | *Cash in hand* .. .. .. .. | | 57 | |
| *35,784* | | | | 44,832 |
| *£62,584* | | | | £73,332 |

## APPENDIX A1

### Manufacturing Account for the year ended March 31, 1961

| 1960 £ | | £ | £ | 1960 £ | | £ | £ |
|---|---|---|---|---|---|---|---|
| 8,706 | Work in Progress—March 31, 1960 .. | | 10,212 | 130,461 | Sales .. .. .. .. .. .. | 156,593 | |
| | | | | 5,739 | *Less* Returns, discounts and allowances | 6,890 | |
| | Materials | | | | | | |
| 32,399 | Materials bought .. .. .. | 42,928 | | 124,722 | | | 149,703 |
| 907 | *Less* Increase in stock at March 31, 1961 .. .. .. .. | 2,656 | | | | | |
| 31,492 | | | 40,272 | | | | |
| 47,011 | Direct Wages .. .. .. .. | | 56,176 | | | | |
| 87,209 | | | 106,660 | | | | |
| 10.212 | *Less* Work in progress—March 31, 1961 | | 12,322 | | | | |
| 76,997 | Prime Cost .. .. .. .. | | 94,338 | | | | |
| 47,725 (38.3%) | Balance—Profit on prime cost (37.0 per cent. on sales) carried down .. .. | | 55,365 | | | | |
| £124,722 | | | £149,703 | £124,722 | | | £149,703 |

| 1960 £ | | £ | £ | 1960 £ | | £ | £ |
|---|---|---|---|---|---|---|---|
| | Works Salaries | | | | Profit on Prime Cost | | |
| 1,727 | Works manager and assistant .. | 1,850 | | 47,725 | Brought down .. .. .. .. | | 55,365 |
| 2,035 | Departmental managers .. .. | 2,470 | | | | | |
| 3,762 | | | 4,320 | | | | |
| | Miscellaneous Labour and Materials | | | | | | |
| 1,323 | Labour .. .. .. .. | 1,514 | | | | | |
| 1,018 | Materials and consumables .. .. | 1,179 | | | | | |
| 2,341 | | | 2,693 | | | | |
| | Factory | | | | | | |
| 938 | Rates .. .. .. .. .. .. | 754 | | | | | |
| 5,261 | Fuel and power .. .. .. | 5,732 | | | | | |
| 513 | Cleaning .. .. .. .. .. | 525 | | | | | |
| 1,717 | Repairs .. .. .. .. .. .. | 2,537 | | | | | |
| 8,429 | | | 9,548 | | | | |
| | Plant | | | | | | |
| 1,891 | Repairs to plant and machinery .. | 2,123 | | | | | |
| 736 | Replacement of loose tools .. .. | 927 | | | | | |
| 2,627 | | | 3,050 | | | | |
| | Labour Employment Expenses | | | | | | |
| 1,633 | National Insurance contributions .. | 1,888 | | | | | |
| 1,752 | Holiday pay .. .. .. .. .. | 2,104 | | | | | |
| 77 | Workmen's compensation insurance | 93 | | | | | |
| 3,462 | | | 4,085 | | | | |
| | Collection, Packing and Delivery | | | | | | |
| 491 | Packages and packing .. .. .. | 534 | | | | | |
| 763 | Carriage and haulage .. .. .. | 827 | | | | | |
| 1,218 | Motor van expenses .. .. .. | 1,271 | | | | | |
| 2,472 | | | 2,632 | | | | |
| 23,093 | Factory Expenses .. .. .. | | 26,328 | | | | |
| 24,632 (19.7%) | Balance—Manufacturing profit (19.4 per cent. on sales) .. .. .. | | 29,037 | | | | |
| £47,725 | | | £55,365 | £47,725 | | | £55,365 |

## APPENDIX A2

TRADING ACCOUNT FOR THE YEAR ENDED MARCH 31, 1961

| 1960 | | | | 1960 | | |
|---|---|---|---|---|---|---|
| £ | | £ | £ | £ | | £ |
| | OFFICE EXPENSES | | | | MANUFACTURING PROFIT | |
| 1,937 | Salaries .. .. .. .. .. | 2,171 | | 24,632 | Brought down .. .. .. .. | 29,037 |
| 283 | Stationery .. .. .. .. | 441 | | | | |
| 101 | Postages .. .. .. .. | 114 | | | | |
| 325 | Telephone .. .. .. .. | 396 | | | | |
| 2,646 | | | 3,122 | | | |
| | SELLING EXPENSES | | | | | |
| 2,125 | Agent's commission .. .. .. | 2,421 | | | | |
| 389 | Advertising .. .. .. .. | 559 | | | | |
| 677 | Travelling and entertaining .. .. | 893 | | | | |
| 841 | Motor-car expenses .. .. .. | 932 | | | | |
| 4,032 | | | 4,805 | | | |
| | GENERAL CHARGES | | | | | |
| 318 | Insurance .. .. .. .. .. | 337 | | | | |
| 71 | Subscriptions .. .. .. .. .. | 73 | | | | |
| 503 | Incidentals .. .. .. .. .. | 572 | | | | |
| 892 | | | 982 | | | |
| | FINANCE | | | | | |
| 70 | Bank charges .. .. .. .. | 73 | | | | |
| 84 | Professional charges .. .. .. | 140 | | | | |
| 400 | Accountancy charges .. .. .. | 450 | | | | |
| 479 | Bad debts .. .. .. .. | 722 | | | | |
| 1,033 | | | 1,385 | | | |
| 8,603 | TOTAL EXPENSES .. .. .. .. | | 10,294 | | | |
| 16,029 (12.8%) | BALANCE—Trading profit (12.5 per cent. on sales) .. .. .. .. .. | | 18,743 | | | |
| £24,632 | | | £29,037 | £24,632 | | £29,037 |

additional prime cost profit of £9,243, but that an overall drop of 1.3 per cent. in prime cost profitability compared with the previous year cost £1,603 and reduced that additional profit to £7,640, and that increases of £3,235 in manufacturing expenses and £1,691 in trading overheads reduced the additional trading profit to £2,714.

Those figures are brought out by the analysis of trading results (Appendix B, page 422), which deals not only with the successive stages up to the trading profit, but also with those up to the final figure of net profit after taxation.

This, on one sheet of paper, summarises the trading results for the year, brings out the variances from the trading results of the previous year, and summarises their effect.

This is an extremely useful analysis—but, in turn, it may not tell the whole story.

It may be that the directors knowingly executed their £24,981 additional sales at cut prices, and that their prime cost profitability rate of 38.3 per cent. on the 1959/60 sales has in fact been maintained on the remainder of the year's sales.

In relation to the increases in expenses, the directors will know, or they will be able to assess, what proportion of those increased expenses was incurred by reason of the additional sales, and what proportion would have been incurred irrespective of any further sales.

However, the important thing is that the directors have before them an intelligible analysis of their accounts which provides them with a basis for an analytical review of the past year's activities—and from the signposts and the talking points it provides they will be able to form a considered judgment as to just how the profit came to be up or down on the previous year, or on their estimates for the year under review.

**Summarised balance sheet**

It is often a pleasant fiction among clients, and, let it be said, private company clients in particular, that they do not understand balance sheets. The accounting requirements of the Eighth Schedule to the Companies Act, 1948, have not made it any easier for them to forgo that fiction, and there is much to be said for presenting them with a summary of the balance sheet in a simplified and more intelligible form.

Thus, the directors of Oxcourse Manufacturing Co. Ltd. might be presented with the balance sheet and reconciliation of increase in net assets reproduced at Appendix C (page 423). This shows, in columnar form, the figures which appear in the "statutory"

## APPENDIX A3

### Profit and Loss Account for the year ended March 31, 1961

| 1960 | | | | 1960 | | |
|---|---|---|---|---|---|---|
| £ | Interest Payable | £ | £ | £ | Trading Profit | £ |
| 402 | Bank interest .. .. .. .. | 503 | | 16,029 | Brought forward .. .. .. | 18,743 |
| 129 | Hire-purchase interest .. .. .. | 149 | | | | |
| 500 | Loan interest (gross) .. .. .. | 500 | | | | |
| 1,031 | | | 1,152 | | | |
| | Directors' Remuneration | | | | | |
| 2,500 | Mr. B. C. Oxcourse .. .. .. | 2,500 | | | | |
| 2,000 | Mr. A. D. Oxcourse .. .. .. | 2,500 | | | | |
| 1,000 | Mr. B. B. Camcourse .. .. .. | 1,350 | | | | |
| 5,500 | | | 6,350 | | | |
| | Provision for Depreciation | | | | | |
| 200 | Works premises .. .. .. | 212 | | | | |
| 1,209 | Plant and machinery .. .. .. | 1,324 | | | | |
| 198 | Fixtures and equipment .. .. | 203 | | | | |
| 834 | Motor vehicles .. .. .. .. | 1,124 | | | | |
| 2,441 | | 2,863 | | | | |
| 25 | Loss on sale of assets .. .. .. | 397 | | | | |
| 2,466 | | | 3,260 | | | |
| | Provision for Taxation on the Profit for the Year | | | | | |
| 87 | Income tax: Schedule A (1960/61) .. | 87 | | | | |
| 2,600 | Schedule D (1961/62) .. | 2,900 | | | | |
| 650 | Profits tax .. .. .. .. | 900 | | | | |
| 3,337 | | 3,887 | | | | |
| 194 | *Less* Income tax recouped on payment of loan interest .. .. | 194 | | | | |
| 3,143 | | | 3,693 | | | |
| 3,889 | Balance—Net profit for the year carried down .. .. .. .. .. | | 4,288 | | | |
| £16,029 | | | £18,743 | £16,029 | | £18,743 |

### Profit and Loss Appropriation Account

| 1960 | | | | 1960 | | | |
|---|---|---|---|---|---|---|---|
| £ | Proposed Dividend | £ | £ | £ | Balance at Credit—March 31, 1960 | £ | £ |
| 613 | Dividend of 10 per cent. less income tax for the year ended March 31, 1961 .. | | 613 | 7,606 | Brought forward from previous accounts | | 10,882 |
| 10,882 | Balance at Credit—March 31, 1961, carried to balance sheet .. .. | | 14,972 | | Net Profit for the Year | | |
| | | | | 3,889 | Brought down .. .. .. .. .. | | 4,288 |
| | | | | | Refund of Rates Overpaid | | |
| | | | | — | (Being a refund of rates paid in previous years on an assessment since reduced on appeal) .. .. .. .. .. | | 415 |
| £11,495 | | | £15,585 | £11,495 | | | £15,585 |

## APPENDIX B

### OXCOURSE MANUFACTURING CO. LTD.

Analysis of Trading Results

Year ended March 31, 1961

| | Year to March 31, 1960 £ | *Per cent. on Sales* | Year to March 31, 1961 £ | *Per cent. on Sales* | Increase *Decrease* £ | *Per cent. on Sales* |
|---|---|---|---|---|---|---|
| Sales .. .. .. | 124,722 | *(100.0)* | 149,703 | *(100.0)* | 24,981 | |
| Prime cost .. .. | 76,997 | *( 61.7)* | 94,338 | *( 63.0)* | 17,341 | |
| Profit on Prime Cost .. | 47,725 | *( 38.3)* | 55,365 | *( 37.0)* | 7,640 | *−1.3* |
| Manufacturing expenses | 23,093 | *( 18.6)* | 26,328 | *( 17.6)* | 3,235 | |
| Manufacturing Profit | 24,632 | *( 19.7)* | 29,037 | *( 19.4)* | 4,405 | *−0.3* |
| Trading overheads .. | 8,603 | *( 6.9)* | 10,294 | *( 6.9)* | 1,691 | |
| Trading Profit .. | 16,029 | *( 12.8)* | 18,743 | *( 12.5)* | 2,714 | *−0.3* |
| Interest payable .. | 1,031 | | 1,152 | | 121 | |
| Directors' remuneration | 5,500 | | 6,350 | | 850 | |
| Depreciation .. .. | 2,466 | | 3,260 | | 794 | |
| Net Profit before Taxation .. .. .. | 7,032 | | 7,981 | | 949 | |
| Taxation .. .. | 3,143 | | 3,693 | | 550 | |
| Net Profit .. .. | £3,889 | | £4,288 | | £399 | |

Reconciliation of Increase in Trading Profit

| | | £ |
|---|---|---|
| *Increase in profit on prime cost* | | |
| Loss of 1.3 per cent. on equivalent of 1959/60 sales (£124,722) .. .. .. | | *1,621* |
| Gain of 37.0 per cent. on increased sales (£24,981) .. .. .. .. .. | | 9,243 |
| | | 7,622 |
| Difference on approximation of decimal points .. .. .. .. .. | | 18 |
| | *As above* | 7,640 |
| *Increase in manufacturing expenses* .. .. .. .. .. .. .. | | *3,235* |
| | | 4,405 |
| *Increase in trading overheads* .. .. .. .. .. .. .. .. | | *1,691* |
| | *Increase* | £2,714 |

balance sheets at March 31, 1960, and March 31, 1961, with a note of their respective increases or decreases for the year. The net effect of those variations (in this case, an increase in net assets during the year) is then reconciled with the amount of the net profit for the year, plus other increments, minus the dividend payable for the year.

Additionally, this form allows scope for explanatory annotation—and can thus bring out the total capital expenditure for the year, minus the net book value of fixed assets sold, the application of the depreciation provision, the movements on the taxation account, and the movements on the directors' undrawn salary accounts, etc.

This is a balance sheet in very readable form, and to the majority of clients it is much more easily understandable than the "statutory" form. Probably the fact that the two sides no longer agree gives them a greater degree of confidence in it.

**Application of profit**

In relation to the question I referred to in paragraph (5), we all know that it would be more realistic if the directors rephrased their question so that it read, not "Where is it?", but "What have we done with it?" In either event, as I have said, the answer is not immediately apparent from the balance sheet and accounts, but a redrafting of the figures will provide it.

The form of statement into which the figures can be redrafted for this purpose has acquired many names—employment of funds statement, movement of capital statement, statement of cash flow, etc., but I prefer to call it a statement of application of profit—and such a statement for the Oxcourse Manufacturing Co. Ltd. is reproduced at Appendix D (page 424).

This statement commences with a calculation of how much net cash has accrued to the company from the year's profit. The calculation starts with the net profit after taxation, to which is added the provision for depreciation (which is obviously not a cash outgoing but a transference of revenue against capital), and the provision for taxation (which is not payable until next year). The total of those items shows the total amount of money or money's worth which has resulted from the profit for the year. We know that it is subject to a charge for income tax and profits tax in due course, but the object of the exercise is to see what has been done with that particular amount of money in this particular year.

The statement then proceeds with a recital of how that money has been applied, namely:

(i) The figures of capital expenditure on the various classes of fixed assets are taken from the balance sheet, after deducting the net proceeds of sales.

(ii) The taxation payments are the actual payments during the year, as shown by the taxation account, any variation in the opening and closing reserves (both current and future) being ignored.

(iii) The dividend payment is that made during the year—in September, 1960.

(iv) With the exception of the rates refund (£415) which is taken from the appropriation account, the remainder of the figures represent the difference between the balance sheet figures at 1960 and those at 1961—that is to say, in the case of the increase in debtors (£4,247) it is assumed that the company received £4,247 cash from trading profit, and re-invested it into the form of debtors.

The completed statement answers the question "Where is it?" and/or "What have we done with it?", and the following information becomes apparent to the directors of Oxcourse Manufacturing Co. Ltd.:

(i) Their net capital expenditure was £4,960—which can be said to have been met as to £2,863 out of the annual depreciation provision, £921 from increased hire-purchase liabilities, and £1,176 out of the year's profit.

(ii) During the year they paid £420 in taxation (on the 1959 profit) which should in the normal course of events have been paid in the previous year—but they have not fully paid the profits tax liability on the 1960 profit, and will have to meet that next year. They are already aware that the actual profits tax liability for 1960 has been agreed at £641, and that the balance of £91 was paid in April 1961.

(iii) The stock has increased by £2,656. A calculation shows that the sales have increased by 20 per cent., and that a 20 per cent. uplift on the stock figure at March 31, 1960 (£5,745) would have represented £1,149. *Prima facie*, there has been an excess investment in stock of

## APPENDIX C

### OXCOURSE MANUFACTURING CO. LTD.

BALANCE SHEETS (AND RECONCILIATION OF INCREASE IN NET ASSETS)

Year ended March 31, 1961

| | At March 31, 1960 | At March 31, 1961 | Increase *Decrease* | |
|---|---|---|---|---|
| | £ | £ | £ | |
| **ASSETS** | | | | |
| Works premises .. .. .. | 10,800 | 11,700 | 900 | Additions £1,112 less sales (at book value) £ — and depreciation £ 212 |
| Plant and machinery .. .. | 12,000 | 12,100 | 100 | ,, £2,124 ,, ( ,, ) £ 700 ,, £1,324 |
| Fixtures and equipment .. .. | 1,500 | 1,400 | *100* | ,, £ 103 ,, ( ,, ) £ — ,, £ 203 |
| Motor vehicles .. .. .. | 2,500 | 3.300 | 800 | ,, £2,924 ,, ( ,, ) £1,000 ,, £1,124 |
| | 26,800 | 28,500 | 1,700 | Additions £6,263 less sales (at book value) £1,700 and depreciation £2.863 |
| Stock .. .. .. .. .. | 5,745 | 8,401 | 2,656 | |
| Work in progress .. .. .. | 10.212 | 12,322 | 2,110 | |
| Debtors .. .. .. .. .. | 19,655 | 23,902 | 4,247 | |
| Prepayments .. .. .. .. | 160 | 150 | *10* | |
| Cash in hand .. .. .. .. | 12 | 57 | 45 | |
| | (A) £62,584 | £73,332 | £10,748 | |
| **LIABILITIES** | | | | |
| Hire-purchase liabilities .. .. | 324 | 1,245 | 921 | |
| Unsecured loan .. .. .. | 10,000 | 10,000 | — | |
| Bank overdraft .. .. .. | 7,863 | 8,924 | 1,061 | |
| Creditors .. .. .. .. .. | 11,331 | 13,264 | 1,933 | |
| Taxation .. .. .. .. .. | 1,112 | 1,070 | *42* | £2,600 transferred from future taxation, plus £987 ex profit and loss account, minus £3,629 paid |
| Directors' undrawn remuneration: | | | | |
| Mr. B. C. Oxcourse .. | 4,407 | 5,907 | 1,500 | Undrawn for the year |
| Mr. A. D. Oxcourse .. | 2,131 | 2,798 | 667 | Undrawn for the year £800, minus P.A.Y.E. paid £133 |
| Mr. B. B. Camcourse .. | 1,321 | 1,639 | 318 | Undrawn for the year £400, minus P.A.Y.E. paid £82 |
| Proposed dividend .. .. .. | 613 | 613 | — | |
| | (B) £39,102 | £45,460 | £6,358 | |
| **NET ASSETS (A)—(B)** .. .. | £23,482 | £27,872 | £4,390 | INCREASE IN NET ASSETS DURING THE YEAR |
| **REPRESENTED BY** | | | | |
| Share capital .. .. .. .. | 10,000 | 10,000 | — | |
| Retained profits .. .. .. | 10,882 | 14,972 | 4,090 | Profit for the year £4,288 plus refund of rates £415, less dividend proposed £613 |
| Future taxation .. .. .. | 2,600 | 2,900 | 300 | £2,600 transferred to current taxation January 1, 1961, £2,900 added ex profit and loss account |
| | £23,482 | £27,872 | £4,390 | |

£1,507, and investigation and discussion will show whether or not it was necessary, and whether steps can now be taken to reduce the stockpile.

(iv) The work in progress has increased by £2,110. A 20 per cent. uplift on the 160 valuation (£10,212) would be £2,042, and so *prima facie* there is nothing abnormal in this item.

(v) The debtors have increased by £4,247. The 1960 debtors were £19,655, and a 20 per cent. uplift would be £3,931. However, an examination of the sales for the last few months of the year shows that the 1961 debtors were made up of the whole of the March sales, 50 per cent. of the February sales, and 20 per cent. of the January sales. As this was largely in accordance with the pattern of the previous year, there is nothing which calls for special inquiry.

(vi) The small variation in the cash in hand and the prepayments do not require any comment.

(vii) There is an increase of £921 in the hire-purchase liabilities on the motor vehicles, from £324 to £1,245. This increase has helped to finance the capital expenditure on motor vehicles during the year, as noted in sub-paragraph (i).

(viii) The bank overdraft has increased by £1,061, and the balance sheet has shown that it was £924 above its agreed limit at March 31, 1961.

(ix) The creditors have increased by £1,933. It is not strictly realistic to apply the 20 per cent. sales uplift test to this item, but an analysis of the creditors shows that after excluding accruals, the bought ledger creditors represent the total of the invoices rendered during the months of February and March—which follows the pattern of the previous year.

(x) The directors already know that they have been unable to draw their full salaries for the year, the withholdings being £1,500 for Mr. B. C. Oxcourse, £800 for Mr. A. D. Oxcourse (minus £133 P.A.Y.E. paid on his previous year's undrawn salary), and £400 for Mr. B. B. Camcourse (minus £82 P.A.Y.E. paid similarly).

The overall picture, therefore, is that the company had a net cash income during the year of £11,435 and disposed of £18,260—and that it got through the year by raising a further £921 on hire-purchase contracts, borrowing a further £1,061 from the bank, taking further credit from suppliers to the extent of £1,933, withholding £2,485 from its directors' salaries, and by receiving a small windfall of £415 for a refund of rates.

### Calculating the cost of expansion

From the picture shown by the statement of application of profit it is possible to go a stage further.

## APPENDIX D

### OXCOURSE MANUFACTURING CO. LTD.

APPLICATION OF PROFIT

Yeat ended March 31, 1961

| | | | |
|---|---|---|---|
| | | | £ |
| NET PROFIT FOR THE YEAR .. | | | 4,288 |
| *Add* Provision for depreciation and loss on sales | | | 3,260 |
| Provision for taxation | | | 3,887 |
| CASH BENEFIT OF PROFIT | | | £11,435 |
| APPLICATION | | | |
| (1) *Additions to fixed assets* | | £ | |
| Works premises | | 1,112 | |
| Plant and machinery (£2,124 *less* Sales £650) | | 1,474 | |
| Fixtures and equipment | | 103 | |
| Motor vehicles (£2,924 *less* Sales £653) | | 2,271 | |
| | | | 4,960 |
| (2) *Payment of taxation liabilities* | | | |
| On 1959 profit—Schedule D, 1959/60 (balance) | | 308 | |
| Profits tax (balance) | | 112 | |
| On 1960 profit—Schedule D, 1960/61 | | 2,572 | |
| Profits tax (on account) | | 550 | |
| Schedule A —1960/61 | | 87 | |
| | | | 3,629 |
| (3) *Payment of dividend* | | | |
| Dividend of 10 per cent. (1959/60) paid September 1960 | | | 613 |
| (4) *Added to working capital* | | | |
| Increase in stock | | 2,656 | |
| Increase in work in progress | | 2,110 | |
| Increase in debtors | | 4,247 | |
| Increase in cash in hand | | 45 | |
| | | | 9,058 |
| | | | 18,260 |
| *Less: Proportion of the above financed by:* | | | |
| Increase in hire-purchase liabilities | | 921 | |
| Increase in bank overdraft | | 1,061 | |
| Increase in creditors | | 1,933 | |
| Increase in directors' undrawn salaries: | | | |
| Mr. B. C. Oxcourse | £1,500 | | |
| Mr. A. D. Oxcourse | 667 | | |
| Mr. B. B. Camcourse | 318 | | |
| | | 2,485 | |
| Decrease in prepayments | | 10 | |
| Refund of rates | | 415 | |
| | | | 6,825 |
| AS ABOVE | | | £11,435 |

It comes as a surprise to most clients when they are told that an increase in sales will probably leave them short of money. It is quite a simple exercise to convince them that this is the case—if the trading profit is 10 per cent. and the debtors at any one time represent one and a half months' sales, then on an increased turnover of £12,000 (assuming it to be maintained at the end of the year) the profit on those sales would be £1,200 and the lock-up in debtors would be £1,500—hence the liquid resources would be depleted by £300, to which might have to be added any concomitant increase in the stock of production materials, less any increase in the creditors for those materials. That £300 deficit will be made good out of next year's profit of £1,200 on that increased turnover (if in fact it recurs), but if there is a further increase next year, then the cash deficit may increase once more—eventually, perhaps, to a point at which the business becomes financially embarrassed.

The sales of the Oxcourse company increased during the year ended March 31, 1961, and it would be useful to calculate the cost of that expansion in terms of its effect on the bank overdraft and the credit position generally. The turnover increased by £24,981 during the year, and on the basis that the outstanding debtors represent 170 per cent. of one month's sales (paragraph (21) (v)), that increased turnover has resulted in the creation of new debtors to the extent of at least 170 per cent. of one twelfth of £24,981, which would be £3,539—in fact, owing to the increase in sales having been more significant towards the end of the year it was £4,247 (as shown by the statement of application of profit). We have seen that the increased sales have resulted in an increase of at least £1,149 in the stock and £2,042 in the work in progress, so that the total investment in debtors, stock, and work in progress which has resulted from the increased turnover is £7,438. The creditors have increased by £1,933 (not all of which was necessarily attributable to the increased sales), but if that is allowed to be off-set in full, there has been a net expansion investment of £5,505.

It now remains to be seen whether that expansion investment has been self-financing. We have seen from the analysis of trading results that the additional sales brought in a prime cost profit of £9,243, but that there were additional manufacturing and trading expenses amounting to £4,926. We do not know whether all those expenses were necessitated by the expansion, but we shall not be very far out if we say that the profit which has accrued from the £24,981 additional sales is 12.5 per cent. (the rate of trading profit shown by the accounts).

On that basis, the profit has been £3,123—and as the net expansion investment was £5,505 it means that the expansion has resulted in a cash deficit of £2,282. In so far as that deficit can be met out of the cash benefit of the profit from the previously established turnover, all well and good—but if that profit (as in this case) has been applied in capital expenditure in excess of the depreciation provision, paying arrears of taxation liabilities, and building up stocks above their normal level, the expansion can only result in a strain on the company's liquid and credit resources.

The advice to be given to the Oxcourse directors is clear—the anticipated expansion for next year should be measured by reference to its probable cost in terms of additional debtors, stocks, and work in progress, and if the cash benefit of next year's profit (which for this purpose can be taken to be the sum of the cash benefit of this year's profit plus the profit on next year's expansion) is not sufficient to cover the taxation payments, dividend, and essential capital expenditure of next year plus that expansion investment, then either the expansion programme will have to be trimmed until it will fit the available resources, or

some additional finance will have to be sought from outside.

The preparation of the three statements I have referred to in this section (the analysis of trading results, the summarised balance sheet and reconciliation of increase in net assets, and the statement of application of profit) is an ancillary service to the preparation and auditing of the annual accounts. These statements, along with the aid and the guidance which the accountant can give in interpreting them, help the company and its directors to extract every ounce of relevant information from their accounts—and in providing this service to the private company the professional accountant assumes the role of the financial director or experienced chief accountant who advises the board of a public company.

My own experience is that these additional statements are very greatly appreciated, and I have often found, having circulated the accounts and statements a few days in advance of a board meeting, that all the directors had read the statements and could almost recite the figures from memory, but had ignored the accounts except to compare the expense figures. In cases where the expense headings were sufficiently numerous to justify putting in a comparative statement with figures of increases and decreases, I have in fact known the accounts themselves to be completely ignored.

## Part III

## THE FORWARD LOOK—BUDGETS AND FORECASTS

The service which the private company, and especially the small private company, most urgently needs from the practising accountant is expert advice and assistance in the day-to-day and month-to-month management of its financial affairs.

The public company has its financial director, its comptroller, its chief accountant, and perhaps a veritable army of accountancy staff, who can provide the most expert assistance in advising the board as to how to use the company's capital to the best advantage, how much the current year's turnover is expected to be, how much profit will accrue from the turnover, how much finance will be required from the bank, and over what period, and at what point surplus funds will require investment. More importantly, they will inform the board at each month-end whether the month's transactions have been in conformity with those forecasts, or whether they have been 5 per cent. up or 5 per cent. down, and why.

In all but the most exceptional case, the smaller private company cannot provide services of that nature for itself. It is dependent on its annual accounts, which (let us face the fact) are often many months in arrear, when the lessons which can be learned from them are too late to be of any value for the current year. In the case of the larger private company which can afford to employ a qualified accountant, that official is often so very much immersed in other work that he has no time to provide services of that nature, or (let us face the fact) he may have left the practising side of the profession long before his knowledge and ability had had time to mature, and he is quite unable to provide them. In such a case, the "resident" accountant's contribution is often confined merely to the preparation of monthly accounts and balance sheets, the usefulness of which is limited because they are not related to any predetermined financial plan.

In relation to the great majority of private companies, therefore, the practising accountant has a wide scope for the extension of his services beyond the field of historical accounting into the field of "forward accounting." In that capacity he becomes more than ever the indispensable adviser, fully in touch with the company's plans, needing no lengthy briefing when his advice is sought at short notice.

As to the form which those "forward" services should take, much will depend on the nature of the company's business. A small retail store, for example, presents no major problems. Its monthly turnover can be estimated for twelve months ahead, its annual wages and salaries bill can be estimated, as can also its annual overhead expenses. Unless there is expected to be any change in the gross profit ratio (in which case the appropriate adjustment can be provided for), it can be assumed that each month's sales will have earned the same ratio of gross profit as was shown by the previous year's accounts—and on the basis of those estimates an advance trading account for the year can be built up, subdivided into twelve separate trading accounts—one for each month of the year.

The comparison of the actual results for each month with the estimate for that month becomes a relatively simple matter, as the statement below shows.

For the manufacturing company, however, the matter is not so simple. It is impossible to prepare accurate monthly trading accounts and balance sheets unless account is taken of fluctuations in stocks and work in progress, and in the great majority of cases it is not practicable to value those items without considerable inconvenience and expense.

What is required by such a private company, therefore, is a system of accounting control which:

(*a*) will keep the directors in close touch with the company's financial affairs, irrespective of whether or not they are particularly skilled in financial matters;
(*b*) will keep them informed from month to month as to whether or not the company is achieving its targets;
(*c*) will not involve the company in any exorbitant expense;
(*d*) will not necessitate the engagement of any additional staff;

MONTH OF MAY, 1961

| | Forecast | Actual | Surplus (Deficit) for month | Surplus (Deficit) to date |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| SALES .. .. .. .. .. .. | 4,000 | 4,212 | 212 | 463 |
| GROSS PROFIT (30 per cent.) .. | 1,200 | 1,264 | 64 | 139 |
| DISCOUNTS RECEIVED .. .. .. .. | 70 | 68 | (2) | 13 |
| | £1,270 | £1,332 | £62 | £152 |
| WEEKLY WAGES | £ | £ | £ | £ |
| (4 weeks plus 1/3rd of the last week) or (5 weeks less 2/3rds of the last week) | 200 | 215 | 15 | 29 |
| MONTHLY SALARIES .. .. .. .. | 105 | 105 | — | — |
| EXPENSES (One-twelfth of estimated annual total) .. .. .. .. .. | 480 | 480 | — | — |
| EXCEPTIONAL EXPENSES .. .. .. | — | 27 | 27 | 27 |
| PROFIT .. .. .. .. .. .. | £485 | £505 | £20 | £96 |
| | | | Surplus | Surplus |

(*e*) will not cause any inconvenience in the office or factory.

On the face of it, that sounds a tall order—but the practising accountant can make, and in a growing number of cases is making, a very powerful contribution.

We have all poured scorn on the thought of the business man of former times who claimed that he could tell where he was going by keeping an eye on his bank pass-book. The truth of the matter is that he probably could—but business has grown far more complex since his day, and it would not be so easy to do it now. Nevertheless, if each class of receipt and payment in that bank pass-book were to be the subject of a considered estimate for each month of the year ahead, and those estimates were capable of being integrated into an overall plan which would result in the achievement of a predetermined amount of profit and a predetermined financial position at the year-end, and it were arranged that at the end of each month in that year the actual transactions could be measured against the estimates, then the bank pass-book could indeed become a very significant ally.

This object can be achieved by preparing a trading and profit and loss account budget based on considered estimates for the year ahead, together with a *pro forma* balance sheet based on that budget, and by translating the figures of those budgets into terms of cash receipts and payments. Those cash receipts and payments are then made up into the form of a cash forecast for each month of the year—and a simple analysis of the cash-book at each month-end thereafter will provide a basis for the measurement of the actual against the estimate.

The accountant's contribution to this is threefold. Firstly, he will assist the directors to make up their estimates. He will weigh those estimates one against the other, he will see whether they make sense, and being satisfied on that score he will attend to the mechanics of the operation—and in due course will present the directors with the results, in the form of a revenue budget, a *pro forma* balance sheet showing the financial position which will result if that budget is exactly achieved, and a cash forecast for the year broken down into a forecast for each month of the year. He will explain these to the directors and find whether in their opinion they make sense, he will warn them of any points in the year at which the bank account will run into overdraft, or at which the present overdraft will exceed its limit, and if in fact his figures show that the bank overdraft will at some point be strained far beyond its limit, he will help them to adjust the estimates accordingly.

Secondly, he (or a member of his staff) will attend at the company's office at or within a few days of each month-end, and will prepare an analysis of the cash-book transactions under the respective headings of the cash forecast, together with a comparative statement showing the differences between the forecast and the actual.

Thirdly, he will meet the directors with this comparative statement and join with them in holding an inquest on the month's transactions.

To consider this in more detail, let us turn again to the Oxcourse Manufacturing Co. Ltd. At the conclusion of their meeting on the accounts, the directors undertook to consider their probable sales, wages and materials costs, and expenses, for the current year, and at a subsequent meeting they informed their accountant that they had arrived at the following estimates:

(*a*) that the net sales, after discounts and allowances, would amount to £170,000;
(*b*) that due to wage increases and rising materials costs, and the inability of the company to pass all these increased costs on to their customers, the ratio of profit on prime cost would fall somewhat from its 1960/61 figure of 37.0 per cent.;
(*c*) that the abnormal stock increase of 1960/61 was unavoidable, that it is not possible to reduce the present stockpile, and that it would increase still further, by reason of the increased turnover, to the extent of a further £1,500 during this year;
(*d*) that the work in progress would increase by a further £2,000;
(*e*) that the cost of materials used would be increased in direct proportion to the increased sales, plus an overall 3 per cent. for increased buying prices;
(*f*) that owing to a certain amount of dilution by unskilled labour the direct wages would not necessarily increase *pro rata* to the increased sales (13.6 per cent.), but that the increased sales and the annual wage increases which were pending would together have the result of increasing the 1960/61 direct wages cost by an overall 15 per cent.;
(*g*) that the manufacturing and trading expenses would increase, detailed estimates being given.

From those estimates the preparation of a cash forecast, trading budget, and balance sheet budget would proceed as follows:

(A) *Sales*

The net sales, after discounts, are estimated at £170,000. We have seen in paragraph (21) (v), that 50 per cent. of the sales of each month are paid for in the following month, 30 per cent. in the next month, and 20 per cent. in the month after that. Only 50 per cent. of each month's sales will thus qualify for the cash discount ($2\frac{1}{2}$ per cent.), and we can therefore say that the discounts will be approximately $2\frac{1}{2}$ per cent. of 50 per cent. of £170,000=£2,125. The total annual sales, after returns and allowances, but before cash discounts, will therefore be, say, £172,150.

The sales daybook shows that the sales in the closing months of 1960/61 were January £14,220, February £13,217, and March £14,450. It is anticipated that the sales in the early months of 1961/62 will continue at that level, with a cumulative increase from July 1961 onwards.

From those basic facts it is possible to build up a statement of estimated monthly sales and anticipated monthly collections from customers. The only further matter which requires to be taken into account is any necessary provision for bad debts. It is impossible to allocate such a provision into certain months rather than others, and it is therefore expedient to spread the annual provision over the twelve months of the year in equal proportions. It is estimated in this case that the loss from bad debts in the year ended March 31, 1962, will be £600, and this can be provided for by a reduction of £50 from the anticipated cash collections of each month.

The detailed workings are reproduced at Appendix E (page 427). These provide us with the monthly and annual sales, the net cash collections which should accrue from those sales, and the annual cost of the cash discounts and bad debts.

It also provides the closing debtors for the balance sheet at March 31, 1962, namely:

| | £ | £ |
|---|---|---|
| Opening debtors | | 23,902 |
| Sales | | 172,150 |
| | | 196,052 |
| *Less* Cash received | 167,126 | |
| Discounts | 2,136 | 169,262 |
| | | 26,790 |
| *Less* Provision for bad debts | | 600 |
| | | £26,190 |

Those net debtors at March 31, 1962, are made up of:

| | £ |
|---|---|
| Jan. sales (£15,200)—20 per cent. | 3,040 |
| Feb. sales (£15,000)—50 per cent. | 7,500 |
| Mar. sales (£15,650)—100 per cent. | 15,650 |
| | £26,190 |

## APPENDIX E

### OXCOURSE MANUFACTURING CO. LTD.

FORECAST MONTHLY SALES AND CASH COLLECTIONS

Year ending March 31, 1962

| 1961 | | Sales | | |
|---|---|---|---|---|
| | | £ | | £ |
| January | (i) | 14,220 | (owing at March 31, 1961 ( 20 per cent.)) .. .. .. | 2,844 |
| February | (ii) | 13,217 | ( ,, ,, ( 50 ,, )) .. .. .. | 6,608 |
| March | (iii) | 14,450 | ( ,, ,, (100 ,, )) .. .. .. | 14,450 |
| | | | (per balance sheet) | £23,902 |

| | Monthly Sales | Monthly Cash Collections 50 per cent. | 30 per cent. | 20 per cent. | Total | Cash Discount (on 50 per cent.) | Net | Provision for Bad Debts | Net Collections |
|---|---|---|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ | £ | £ | £ |
| 1961 April .. .. | (a) 14,500 | (iii) 7,225 | (ii) 3,965 | (i) 2,844 | 14,034 | 180 | 13,854 | 50 | 13,804 |
| May .. .. | (b) 14,500 | (a) 7,250 | (iii) 4,335 | (ii) 2,643 | 14,228 | 181 | 14,047 | 50 | 13,997 |
| June .. .. | (c) 14,700 | (b) 7,250 | (a) 4,350 | (iii) 2,890 | 14,490 | 181 | 14,309 | 50 | 14,259 |
| July .. .. | (d) 15,000 | (c) 7,350 | (b) 4,350 | (a) 2,900 | 14,600 | 183 | 14,417 | 50 | 14,367 |
| August .. .. | (e) 7,500 | (d) 7,500 | (c) 4,410 | (b) 2,900 | 14,810 | 187 | 14,623 | 50 | 14,573 |
| September .. .. | (f) 15,000 | (e) 3,750 | (d) 4,500 | (c) 2,940 | 11,190 | 93 | 11,097 | 50 | 11,047 |
| October .. .. | (g) 15,000 | (f) 7,500 | (e) 2,250 | (d) 3,000 | 12,750 | 188 | 12,562 | 50 | 12,512 |
| November .. .. | (h) 15,100 | (g) 7,500 | (f) 4,500 | (e) 1,500 | 13,500 | 188 | 13,312 | 50 | 13,262 |
| December .. .. | (i) 15,000 | (h) 7,550 | (g) 4,500 | (f) 3,000 | 15,050 | 189 | 14,861 | 50 | 14,811 |
| 1962 January .. .. | (j) 15,200 | (i) 7,500 | (h) 4,530 | (g) 3,000 | 15,030 | 188 | 14,842 | 50 | 14,792 |
| February .. .. | (k) 15,000 | (j) 7,600 | (i) 4,500 | (h) 3,020 | 15,120 | 190 | 14,930 | 50 | 14,880 |
| March .. .. | (l) 15,650 | (k) 7,500 | (j) 4,560 | (i) 3,000 | 15,060 | 188 | 14,872 | 50 | 14,822 |
| | £172,150 | £85,475 | £50,750 | £33,637 | £169,862 | £2,136 | £167,726 | £600 | £167,126 |

## APPENDIX F

### OXCOURSE MANUFACTURING CO. LTD.

CASH FORECAST—YEAR TO MARCH 31, 1962

| | *Paragraph* | 1961 APRIL | MAY | JUNE | JULY | AUG. | SEPT. | OCT. | NOV. | DEC. | 1962 JAN. | FEB. | MAR. | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| RECEIPTS | | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ |
| Sales ledger collections .. | (A) | 13,804 | 13,997 | 14,259 | 14,367 | 14,573 | 11,047 | 12,512 | 13,262 | 14,811 | 14,792 | 14,880 | 14,822 | 167,126 |
| | | £13,804 | £13,997 | £14,259 | £14,367 | £14,573 | £11,047 | £12,512 | £13,262 | £14,811 | £14,792 | £14,880 | £14,822 | £167,126 |
| PAYMENTS | | | | | | | | | | | | | | |
| Wages .. .. .. | (B) | 5,310 | 5,310 | 6,750 | 5,460 | 2,860 | 6,800 | 5,510 | 5,510 | 6,850 | 5,560 | 5,560 | 7,020 | 68,500 |
| Staff salaries .. .. .. | (C) | 575 | 575 | 575 | 575 | 575 | 575 | 575 | 575 | 575 | 575 | 575 | 575 | 6,900 |
| Directors' salaries .. .. | (D) | 346 | 346 | 346 | 346 | 346 | 346 | 346 | 346 | 346 | 346 | 345 | 345 | 4,150 |
| P.A.Y.E. on undrawn salaries | (D) | 220 | — | — | — | — | — | — | — | — | — | — | — | 220 |
| Bought ledger payments: | | | | | | | | | | | | | | |
| Materials .. .. .. | (F) | 3,400 | 4,000 | 4,000 | 4,000 | 4,100 | 4,400 | 2,600 | 4,400 | 4,600 | 4,300 | 4,400 | 4,400 | 48,600 |
| Expenses .. .. .. | (F) | 1,700 | 1,900 | 2,000 | 2,000 | 2,100 | 2,100 | 1,900 | 2,100 | 2,300 | 2,100 | 2,100 | 2,100 | 24,400 |
| Rates .. .. .. | (E) | — | 395 | — | — | — | — | — | 395 | — | — | — | — | 790 |
| Telephone .. .. .. | (E) | — | — | — | 220 | — | — | — | — | — | 220 | — | — | 440 |
| Insurances .. .. .. | (E) | 430 | — | — | — | — | — | — | — | — | — | — | — | 430 |
| Holiday pay .. .. .. | (E) | — | — | — | 2,400 | — | — | — | — | — | — | — | — | 2,400 |
| Accountancy charges .. | (E) | — | — | — | — | — | 450 | — | — | — | — | — | — | 450 |
| Loan interest .. .. | (E) | — | — | — | — | — | 153 | — | — | — | — | — | 153 | 306 |
| Hire-purchase payments .. | (G) | 96 | 96 | 96 | 96 | 96 | 96 | 96 | 96 | 96 | 96 | 96 | 96 | 1,152 |
| Capital expenditure .. .. | (H) | — | — | 1,000 | — | — | 250 | — | — | 750 | 500 | — | — | 2,500 |
| Taxation payments .. .. | (I) | 91 | — | — | — | — | — | — | — | 900 | 87 | 2,900 | — | 3,978 |
| Dividend .. .. .. | (J) | — | — | — | — | — | 613 | — | — | — | — | — | — | 613 |
| Bank charges .. .. | (E) | — | — | 40 | — | — | — | — | — | 40 | — | — | — | 80 |
| Bank interest .. .. | (K) | — | — | 220 | — | — | — | — | — | 185 | — | — | — | 405 |
| | | £12,168 | £12,622 | £15,027 | £15,097 | £10,077 | £15.783 | £11,027 | £13,422 | £16,642 | £13,784 | £15,976 | £14,689 | £166,314 |
| OVERDRAFT AT END OF MONTH | | £7,288 | | 6,681 | | 2,915 | | 6,166 | | 8,157 | | 8,245 | | |
| (£8,924 at March 31, 1961) .. | | | 5,913 | | 7,411 | | 7,651 | | 6,326 | | 7,149 | | 8,112 | |

(B) *Wages*

The wages figures of 1960/61 require to be increased by 15 per cent. The wages figures for 1961/62 (along with the National Insurance stamps, which are paid at the same time as the wages) can therefore be estimated as follows:

| | 1960/61 | 15 per cent. | Say 1961/62 |
|---|---|---|---|
| | £ | £ | £ |
| Direct .. .. | 56,176 | 8,427 | 64,650 |
| Miscellaneous.. | 1,514 | 226 | 1,750 |
| National Insurance .. | 1,888 | 283 | 2,100 |
| | | | £68,500 |

The wages are paid on the Friday of each week, and this total sum of £68,500 requires to be apportioned over the twelve months of the year, having regard firstly to the number of Fridays in the month, and secondly to the pattern of the increase relative to the increase in the production and turnover. On that basis the monthly wage payments are forecast to be:

| | | £ |
|---|---|---|
| April | (4 weeks) .. .. | 5,310 |
| May | (4 ,, ) .. .. | 5,310 |
| June | (5 ,, ) .. .. | 6,750 |
| July | (4 ,, ) .. .. | 5,460 |
| August | (2 ,, ) .. .. | 2,860 |
| September | (5 ,, ) .. .. | 6,800 |
| October | (4 ,, ) .. .. | 5,510 |
| November | (4 ,, ) .. .. | 5,510 |
| December | (5 ,, ) .. .. | 6,850 |
| January | (4 ,, ) .. .. | 5,560 |
| February | (4 ,, ) .. .. | 5,560 |
| March | (5 ,, ) .. .. | 7,020 |
| | | £68,500 |

(C) *Salaries*

The salaries paid in 1960/61 were £4,320 for the works staff and £2,171 for the office staff. Salary increases for 1961/62 have already been given, and subject to any staff changes the salaries payable in 1961/62 will be £4,600 and £2,300 respectively—a total of £6,900 which will be paid in twelve monthly payments of £575 each.

(D) *Directors' salaries*

The monthly salary drawings of the three directors will be at the rate of £1,000 per annum for Mr. B. C. Oxcourse, £2,000 per annum for Mr. A. D. Oxcourse, and £1,150 per annum for Mr. B. B. Camcourse. Those drawings amount to £4,150 per annum, or £346 per month. P.A.Y.E. on the undrawn salaries for 1960/61 became payable in April, 1961, and amounted to £140 for Mr. A. D. Oxcourse and £80 for Mr. B. B. Camcourse. Mr. B. C. Oxcourse paid his P.A.Y.E. liability privately.

(E) *Specific expenses*

Expenses of significant amount which are payable only once or at stated intervals during the year should be dealt with separately in the cash forecast, and in that connection the following expenses of the Oxcourse Company receive that special treatment:

| | 1960/61 | Estimated 1961/62 | Payable |
|---|---|---|---|
| | £ | £ | |
| Rates | 754 | 790 | May–Nov. |
| Holiday pay | 2,104 | 2,400 | July |
| Telephone | 396 | 440 | July–Jan. |
| Insurances: | | | |
| W.C.A. | 93 | 100 | April |
| Others | 337 | 330 | April |
| Bank charges | 73 | 80 | June–Dec. |
| Accountancy charges | 450 | 450 | Sept. |
| Loan interest (net) | 306 | 306 | Sept.–Mar. |

(F) *Materials and other expenses*

The payments for materials used in production, and for expenses other than those which have been singled out for special treatment, will be dealt with through the bought ledger and it is convenient to deal with them together.

The materials cost can be estimated as follows:

| | £ |
|---|---|
| Cost in 1960/61 .. .. .. | 40,272 |
| *Add* 13.6 per cent. for increased turnover .. .. .. | 5,477 |
| | 45,749 |
| *Add* 3 per cent. for increased prices .. .. .. .. | 1,372 |
| | 47,121 |
| say | £47,200 |
| *Add* For estimated increase in stock at March 31, 1962 .. | 1,500 |
| | 48,700 |
| *Add* Consumables (£1,179 in 1960/61), say .. .. | 1,300 |
| | £50,000 |

The expenses (other than those already dealt with) are estimated at:

| | 1960/61 | 1961/62 |
|---|---|---|
| | £ | £ |
| Fuel and power (paid monthly) .. .. | 5,732 | 7,000 |
| Cleaning .. .. .. | 525 | 570 |
| Repairs (factory) .. | 2,537 | 2,800 |
| Repairs (plant) .. .. | 3,050 | 3,300 |
| Collection, packing, etc. | 2,632 | 3,100 |
| Stationery .. .. | 441 | 570 |
| Postage .. .. .. | 114 | 130 |
| Agents' commission .. | 2,421 | 3,000 |
| Advertising .. .. | 559 | 1,250 |
| Travelling .. .. | 893 | 1,250 |
| Motor-car expenses .. | 932 | 1,100 |
| Subscriptions .. .. | 73 | 80 |
| Incidentals .. .. | 572 | 700 |
| Professional charges .. | 140 | 150 |
| | £20,621 | £25,000 |

This means that payments totalling £50,000 for materials and £25,000 for expenses will be dealt with through the bought ledger.

An analysis of the sundry creditors at March 31, 1961, (£13,264) shows that they consisted of bought ledger balances £11,000 and accruals (holiday pay, rates, telephone, accountancy charges, etc.) £2,264. Examination of the bought ledger balances shows that they represented the whole of the invoices rendered for February (£5,100) and March (£5,900)—and that there is a consistent pattern of the balances being two months in arrear.

On the basis that that pattern will be continued throughout 1961/62, and after making provision for the increased expenditure which will accrue during that year, the bought ledger payments during 1961/62 are estimated to be as follows:

| | For Materials | For Expenses | Total |
|---|---|---|---|
| | £ | £ | £ |
| April .. | 3,400 | 1,700 | 5,100* |
| May .. | 4,000 | 1,900 | 5,900* |
| June .. | 4,000 | 2,000 | 6,000 |
| July .. | 4,000 | 2,000 | 6,000 |
| Aug. .. | 4,100 | 2,100 | 6,200 |
| Sept. .. | 4,400 | 2,100 | 6,500 |
| Oct. .. | 2,600 | 1,900 | 4,500 |
| Nov. .. | 4,400 | 2,100 | 6,500 |
| Dec. .. | 4,600 | 2,300 | 6,900 |
| Jan. .. | 4,300 | 2,100 | 6,400 |
| Feb. .. | 4,400 | 2,100 | 6,500 |
| Mar. .. | 4,400 | 2,100 | 6,500 |
| | £48,600 | £24,400 | £73,000 |

* 1961 Credit.

For the purposes of the *pro forma* balance sheet at March 31, 1962, the notional bought ledger control account can be built in this way:

| | Materials | Expenses | Total |
|---|---|---|---|
| | £ | £ | £ |
| Balance—March 31, 1961 | 7,400 | 3,600 | 11,000 |
| Purchases | 50,000 | 25,000 | 75,000 |
| | 57,400 | 28,600 | 86,000 |
| Cash payments | 48,600 | 24,400 | 73,000 |
| Balance—March 31, 1962 | £8,800 | £4,200 | £13,000 |

It may be that certain expenses payments are made otherwise than through the bought ledger (for example, private ledger payments and payments to the petty cash account), but for all the purposes of the cash forecast and its

monthly reconciliation they can be merged with the bought ledger payments.

(G) *Hire-purchase instalments*
It is not anticipated that any further motor vehicles or other fixed assets will be acquired on hire-purchase terms during 1961/62, and the provision required in the cash forecast will be for the monthly instalments of £96 on those contracts existing at March 31, 1961—each instalment consisting of £83 principal and £13 interest.

(H) *Capital expenditure*
In view of the tightness of the liquid position it is intended to keep capital expenditure down to its minimum, the essential purchases being estimated to require payments of £1,000 in June, £250 in September, £750 in December, and £500 in January, 1962—all for plant and machinery.

(I) *Taxation payments*
The payments in settlement of taxation liabilities can be arrived at from the balances making up the taxation reserves at March 31, 1961, namely:

| | March 31, 1961 £ | Payable |
|---|---|---|
| Profits tax 1960—balance .. .. | 91 | Apl., 1961 |
| Profits tax 1961 .. | 900 | Dec., 1961 |
| Schedule D, 1961/62 | 2,900 | Feb., 1962 |
| Surplus reserve .. | 79 | — |
| | £3,970 | |

(J) *Dividend*
The dividend for the year to March 31, 1961 (£613 net) is expected to be paid in September, 1961.

(K) *Bank interest*
This is computed from the cash forecast itself, when the average forecast overdraft for each half-year has been ascertained.

(L) *Expense accruals*
It is estimated that the expense accruals at March 31, 1962, will have increased by £120 for holiday pay, £100 for agents' commission, £10 for rates, and £10 for telephone—a total increase of £240.

**Cash forecast**
From the foregoing information a cash forecast can be built up in the form reproduced at Appendix F (page 427).

This forecast shows that at three points in the year (December, 1960, and February and March, 1961) the bank overdraft will exceed its limit of £8,000—at its highest point by £245. This has obviously been caused firstly by the capital expenditure payments in December and January, and secondly by the payment of the 1961 profits tax liability in December, and the 1961/62 Schedule D income tax liability in February. The pattern of the previous months offers every reason to suppose that these excesses will only be temporary, but prudence dictates that the bank should be provided forthwith with a copy of the forecast and asked to sanction an additional advance of £1,000 or so during the period from December, 1961, to April or May, 1962. In this particular connection, it can be appreciated that the cash forecast is a most helpful document to the company's bankers, as they accept it not only in support of any

## APPENDIX G
### OXCOURSE MANUFACTURING CO. LTD.
#### Trading Budget
Year ending March 31, 1962

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | £ | | | £ |
| Work in progress 1961 .. .. | | | 12,322 | Sales .. .. .. | (A) | 172,150 |
| Materials bought .. | (F) | £48,700 | | *Less* Discounts .. | (A) | 2,136 |
| *Less* Increase in stock | | 1,500 | | | | |
| | | | 47,200 | | | 170,014 |
| Direct wages .. .. .. | (B) | | 64,650 | | | |
| | | | 124,172 | | | |
| *Less* Work in progress 1962 (increase of £2,000) .. .. | | | 14,322 | | | |
| | | | 109,850 | | | |
| Profit on prime cost (35.4 per cent.) | | | 60,164 | | | |
| | | | £170,014 | | | £170,014 |
| | | | £ | | | £ |
| Works salaries .. .. .. .. | (C) | | 4,600 | Profit, brought down | | 60,164 |
| Miscellaneous labour .. .. | (B) | | 1,750 | | | |
| Miscellaneous materials .. .. | (F) | | 1,300 | | | |
| Rates (£790 (E)+£10 (L)) .. .. | | | 800 | | | |
| Fuel and power .. .. .. | (F) | | 7,000 | | | |
| Cleaning .. .. .. .. | (F) | | 570 | | | |
| Factory repairs .. .. .. | (F) | | 2,800 | | | |
| Plant repairs .. .. .. .. | (F) | | 3,300 | | | |
| National Insurance .. .. | (B) | | 2,100 | | | |
| Holiday pay (£2,400 (E)+£120 (L)) | | | 2,520 | | | |
| Workmen's compensation insurance | (E) | | 100 | | | |
| Collection, packing, etc. .. .. | (F) | | 3,100 | | | |
| | | | 29,940 | | | |
| Manufacturing profit (17.8 per cent.) | | | 30,224 | | | |
| | | | £60,164 | | | £60,164 |
| | | | £ | | | £ |
| Office salaries .. .. .. .. | (C) | | 2,300 | Profit, brought down | | 30,224 |
| Stationery .. .. .. .. | (F) | | 570 | | | |
| Postages .. .. .. .. .. | (F) | | 130 | | | |
| Telephone (£440 (E)+£10 (L)) .. | | | 450 | | | |
| Agents' commission (£3,000 (F)+£100 (L)) | | | 3,100 | | | |
| Advertising .. .. .. .. | (F) | | 1,250 | | | |
| Travelling .. .. .. .. | (F) | | 1,250 | | | |
| Motor-car expenses .. .. .. | (F) | | 1,100 | | | |
| Insurance .. .. .. .. | (E) | | 330 | | | |
| Subscriptions .. .. .. | (F) | | 80 | | | |
| Incidentals .. .. .. .. | (F) | | 700 | | | |
| Bank charges .. .. .. | (E) | | 80 | | | |
| Professional charges .. .. | (F) | | 150 | | | |
| Accountancy charges .. .. | (E) | | 450 | | | |
| Bad debts provision .. .. | | | 600 | | | |
| | | | 12,540 | | | |
| Trading profit (10.4 per cent.) .. | | | 17,684 | | | |
| | | | £30,224 | | | £30,224 |

## APPENDIX H
### OXCOURSE MANUFACTURING CO. LTD.
PROFIT AND LOSS ACCOUNT BUDGET
Year ending March 31, 1962

| | | £ | £ | | £ |
|---|---|---|---|---|---|
| *Bank interest* .. .. | (K) | | 405 | *Trading profit, brought down* | 17,684 |
| *Hire-purchase interest* .. | (G) | | 156 | | |
| *Loan interest* .. .. | (E) | 306 | | | |
| Tax recouped .. .. | (a) | 194 | | | |
| | | | 500 | | |
| *Directors' salaries* | | | | | |
| Drawn .. .. .. | (D) | 4,150 | | | |
| Undrawn .. .. | (B/S) | 2,200 | | | |
| | | | 6,350 | | |
| *Depreciation:* | | | | | |
| Buildings .. .. | (B/S) | 220 | | | |
| Plant .. .. .. | (B/S) | 1,460 | | | |
| Fixtures .. .. .. | (B/S) | 180 | | | |
| Motors .. .. .. | (B/S) | 850 | | | |
| | | | 2,710 | | |
| *Taxation:* | | | | | |
| Schedule A 1961/62 .. | (I) | 87 | | | |
| Schedule D 1962/63 .. | (B/S) | 2,800 | | | |
| Profits tax .. .. | (B/S) | 550 | | | |
| | | 3,437 | | | |
| *Less* Recouped .. | (a) | 194 | | | |
| | | | 3,243 | | |
| Net profit for the year .. .. .. | | | 4,320 | | |
| | | | £17,684 | | £17,684 |

## APPENDIX I
### OXCOURSE MANUFACTURING CO. LTD.
*Pro forma* BALANCE SHEET—MARCH 31, 1962
Based on the Budget for the year ending on that date

| | | £ | | | £ |
|---|---|---|---|---|---|
| *Share capital* .. .. .. .. | | 10,000 | *Premises* (£11,700—£220 depreciation) .. | | 11,480 |
| *Profit and loss account* | | | | | |
| At March 31, 1961 | £14,972 | | *Plant* | | |
| Profit for the year | 4,320 | | (£12,100+£2,500 Adds.—£1,460 depreciation) .. .. .. | | |
| | | 19,292 | | | 13,140 |
| *Future taxation* (1962/63) .. .. .. .. | | 2,800 | *Fixtures* (£1,400—£180 depreciation) .. | | 1,220 |
| *Hire-purchase liabilities* (£1,245—(12×£83) (G)) .. .. | | 249 | *Motors* (£3,300—£850 depreciation) .. | | 2,450 |
| *Unsecured loan* .. .. .. | | 10,000 | | | 28,290 |
| *Bank overdraft* (per forecast) .. .. .. | | 8,112 | *Stock* (£8,401+£1,500 (F)) .. .. | | 9,901 |
| *Sundry creditors* | | | *Work in progress* .. .. .. | | 14,322 |
| Bought ledger (F) | £13,000 | | | | |
| Accruals: (£2,264 (F)+ £240 (L)) .. | 2,504 | | *Debtors* (A) .. .. | £26,790 | |
| | | | Bad debts provision | 600 | |
| | | 15,504 | | | 26,190 |
| *Taxation* | | | *Prepayments (as 1961)* .. .. | | 150 |
| Profits tax (1962) .. .. | £550 | | *Cash in hand (as 1961)* .. .. | | 57 |
| Surplus reserve (I) | 79 | | | | |
| | | 629 | | | |
| *Directors' undrawn salaries* | | | | | |
| At 1961 .. .. | £10,344 | | | | |
| Undrawn 1962 .. | 2,200 | | | | |
| | 12,544 | | | | |
| *Less* P.A.Y.E. paid (D) | 220 | | | | |
| | | 12,324 | | | |
| | | £78,910 | | | £78,910 |

application for an increased overdraft, but, more importantly, as an indication that the company is adopting a responsible attitude towards its financial affairs.

If the forecast at any month-end had shown any very considerable increase in the overdraft, or if the bank for any reason declined to sanction the modest increases which are at present shown, it would be necessary to trim the payments accordingly—by cutting expenses, by reducing the capital expenditure estimates, or by limiting the expansion programme.

**Trading and profit budget**

The figures of the cash forecast can now be used in the preparation of the trading and profit budget which is reproduced at Appendix G (page 429).

This budget is drawn up in a form similar to that adopted for the annual accounts, and is based on the estimates of sales, wages and materials costs, and expenses. It shows a profit on prime cost of 35.4 per cent. compared with 37.0 per cent. for the year 1960/61, a manufacturing profit of 17.8 per cent. compared with 19.4 per cent., and a trading profit of 10.4 per cent. compared with 12.5 per cent. It follows the pattern of increasing turnover and decreasing profitability shown by the 1960/61 accounts, and which the directors took into account in their 1961/62 estimates, and to that extent it makes sense—and implies a modest conservatism rather than any unduly rosy optimism.

The profit and loss account budget at Appendix H takes account of the anticipated interest payments and the directors' salaries for the year and provides for the anticipated depreciation provision on the fixed assets. Provision has also been made for the estimated taxation liability on the budgeted profit, and the anticipated net profit for the year thus emerges.

***Pro forma* balance sheet**

The *pro forma* balance sheet at Appendix I proceeds from the profit and loss account to draw together all the remaining figures, and thus shows the financial position as it will be at March 31, 1962, if the budget programme is exactly achieved (and if the rates of taxation remain unchanged).

This completes the budget, and all is ready to await each month-end and then to see how each month has fared by comparison with the forecast.

[*To be concluded*]

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*Taxation*

# Taxation Danger Points—V

## Buying a Business

THE FIRST MATTER to determine when acquiring a business owned by a company is whether the business itself should be purchased or whether shares in the company owning it should be bought. If the business is bought, the following points will have to be considered:

(i) If the name under which the business is conducted has a value for goodwill purposes, it should be registered under the Registration of Business Names Act, 1916. The Registrar must be given notice on form R.B.N. 1B, which requires notice of the business name for which application is being made; the corporate name of the company applying for registration and its registered office; the full address of the principal place of business; what business is to be carried on; the date on which the company began to trade under the business name, and any other business name under which the business is carried on. The form has to be signed by an official of the company, who must give his status.

(ii) The income tax assessments will be based on the new business provisions, so that if the purchase were finalised on September 1, 1960, and accounts are made up annually thereafter, the assessment for 1960/61 would be based on the profits from September 1, 1960, to April 5, 1961; the assessment for 1961/62 on the profits for the year ended August 31, 1961; and the assessment for 1962/63 on the profits shown by the accounts for the year ended August 31, 1961. If profits are rising, this will be a disadvantage. Furthermore, if the purchaser is already carrying on a business, the accounts of the two businesses may have to be kept separate. The question of succession is complicated and will be dealt with later. As mentioned in article III of this series*, any disadvantage arising from the discontinuance and new business provisions may be overcome by entering into partnership with the business and giving notice to be assessed under the continuance provisions of Section 19(3), Finance Act, 1953. There may, however, be disadvantages from a trading viewpoint to this course of action.

(iii) If the purchaser is a company, the trading results of the business being acquired will be amalgamated with those of the existing business for profits tax purposes.

*ACCOUNTANCY, May, pages 291-2.

**The fifth article in a series written to remind readers of some pitfalls to be avoided when advising clients on taxation matters.**

(iv) An investigation by professional accountants will have to be made and a report received showing the trading results of the past five (or even up to ten) years. These results should be adjusted for matters that will not arise in the future period. A statement of the assets and liabilities at a recent date should be included. In addition, details should be given of the management team of the business being acquired; the amount which it is anticipated will have to be invested in purchasing the business and, if necessary, re-financing it; any service contracts held by any members of the management team and any assets of the company used specifically by them. Similar details will be provided if shares in a company are being purchased.

### Purchase of Shares

If shares in a company are being purchased, the matters to be considered apart from (iv) above are:

(v) The income tax assessments will be unaffected by the change in ownership of the shares. If it is anticipated that the business can be improved materially, this will give a temporary cash advantage, which will help financing problems.

(vi) If the purchase is being made by a company, the results of the subsidiary can be amalgamated with those of the holding company for profits tax purposes. By use of subvention payments, a similar effect can be achieved without amalgamation.

(vii) From the date of purchase of the shares the subsidiary and holding companies will become associated, so that subvention payment agreements may be entered into. Such agreements will enable deficiencies of income in one company to be set off against the surpluses of other(s) in the group. It should be noted that under the provisions of Section 20, Finance Act, 1953, a payment is a subvention payment only if it is made under an agreement providing for the paying company to bear or share in losses or a particular loss of the payee company, and is made in or before the second year of assessment following the period in which the loss is made. The agreement is accepted by the Revenue if made in writing; it must, unless under seal, have some consideration. An oral contract may also be accepted, but naturally this is more difficult to prove. The subvention payment cannot exceed the smaller of (a) the deficit for the accounting period of the payee or (b) the surplus for the corresponding period of the payer. In deciding the deficit or surplus, it is necessary to deduct from the aggregate amount of the adjusted profits of the trade carried on in that period and the other income for the year of assessment in which the

accounting period ends the aggregate amount of:

(1) any adjusted loss sustained in the accounting period in any such trade;

(2) any capital allowances in respect of such trade for the year of assessment in which the period ends; and

(3) any payments made by the payee company in the year of assessment in which that period ends to which Section 169 or Section 170 applies.

Payments to which Section 170 applies in respect of sales of United Kingdom patent rights by a non-resident, or which are deductible in computing the profits or losses of a trade, are ignored for the purpose of calculating the aggregate amount. Where the accounting period is less or more than one year, the amounts of other income, capital allowances and annual payments are proportionately increased or decreased. Both associated companies must be resident in the United Kingdom and carry on a trade wholly or partly in the United Kingdom. For this purpose, it should be realised that if the control and management of an oversea subsidiary company are exercised by the Board of Directors of the parent company in the United Kingdom, then the subsidiary is resident in the United Kingdom. See *Bullock v. Unit Construction* [1959] 3 All E.R. 831. The provisions of Section 20(2), Finance Act, 1960 (restriction of relief for losses), will not apply providing the activities of the group as a whole are carried on on a commercial basis with a view to the realisation of profits, although one company in the group may continuously make losses.

(viii) Where the company whose shares are being acquired is a controlled company for the purposes of Section 245, Income Tax Act, 1952, indemnities must be obtained from the selling shareholders against any liability which may fall on the company. The purchaser should request the vendors to have clearances obtained under the provisions of Section 252, Income Tax Act, 1952, up to the latest accounting date.

Briefly, a company falls within the ambit of Section 245 if it is under the control of not more than five persons; if it is not a subsidiary company of a company to which the Section does not apply; or if the public is not substantially interested (the public is substantially interested if it owns ordinary shares—that is, those not entitled to a fixed rate of dividend only—with not less than twenty-five per cent. of the voting power and such shares have been officially quoted and dealt in on the Stock Exchange during the year). All relatives, that is, husband, wife, ancestor, lineal descendant, brother or sister, are treated as one person; a beneficial owner and his nominee are deemed to be one person; partners and beneficiaries under a trust are respectively treated as one person. Section 256 provides that a company is under the control of five or fewer persons if:

(1) any five or fewer persons together exercise, or are able to exercise, or are entitled to acquire, control, whether direct or indirect, over the company's affairs;

(2) any five or fewer persons together possess, or are entitled to acquire, the greater part of the share capital or voting power of the company;

(3) any five or fewer persons together possess, or are entitled to acquire, either the greater part of the issued share capital of the company or such part of that capital as would, if the whole income of the company were in fact distributed to the members, entitle them to receive the greater part of the amount so distributed;

(4) not more than five persons would have apportioned to them over half the income of the company in the event and on the assumption that it and any other company or companies are liable to a direction. (In this case, to see whether the company is liable under the Section, it is first necessary to assume that it is liable. Then, if an apportionment of its income would result in over half going to five or fewer persons, the company is deemed to be under the control of not more than five persons.)

*(To be continued)*

# The Australian Payroll Tax

*By H. R. Irving, F.C.A.(Aust.), F.C.I.S.**

Payroll Tax was first introduced into Australia in 1941, the objective being to raise revenue to assist in financing child endowment, but for some years past the proceeds of the tax have been paid into consolidated revenue.

The tax was and still is at the rate of 2½ per cent. on all "wages" paid or payable by any "employer" in respect of any period of time occurring after June 30, 1941, in excess of a general exemption of a fixed amount per annum.

**Definition of Wages**

"Wages" means any wages, salary, commission, bonuses or allowances paid or payable (whether at piecework rates or otherwise and whether paid or payable in cash or in kind) to any employee as such and, without limiting the generality of the foregoing, includes—

(*a*) any payment made under any prescribed classes of contracts to the extent to which that payment is attributable to labour;

(*b*) any payment made by a company by way of remuneration to a director of that company;

(*c*) any payment made by way of commission to an insurance or time-payment canvasser or collector; and

(*d*) the provision by the employer of meals or sustenance or the use of premises or quarters as consideration or part consideration for the employee's services.

It will be seen that all classes of wages are subject to the tax (as is further indicated under the heading "Definition of Employer"). Travelling and similar allowances paid to an employee are taxable, but a mere reimbursement of

*The author is the General Secretary and a member of the General Council of the Taxation Institute of Australia and New South Wales President of the Australian Society of Accountants.

expenses incurred by an employee is not subject to tax.

Under a ruling issued by the Commissioner of Taxation, payments in lieu of holidays or long-service leave which have become payable clearly and solely as a consequence of retrenchment, resignation or retirement are not subject to tax, even though, for the sake of convenience, the payments may be made some days before the actual termination of the employment. Ordinary "holiday pay" is, however, taxable, because the entitlement of annual leave is in the nature of a wage or bonus in consideration of services previously rendered by a person who is still an employee.

The following "rulings" of the Commissioner of Taxation relating to contributions to and payments from separately constituted funds—for example, superannuation funds, life assurance funds—may be of interest. The majority of pensions are paid from funds established for that purpose. Such pensions are not regarded as wages paid by an employer because they are, in fact, paid, not by the employer, but by the authority constituting the fund. The amounts so paid are not subject to payroll tax. Where, however, amounts are deducted from the "wages" of employees as contributions to such funds, the employer must pay tax on the gross amount of the wages and not on the net payment. Payments by employers to separately established funds (for example, superannuation funds) which are intended to obtain some future benefit for employees are not taxable. As a general rule, pensions paid by employers out of their own funds are not within the definition of "wages," even though the payments relate to past services. Gratuities or allowances paid in a lump sum on cessation of employment are, in general, to be treated as not subject to payroll tax.

**Definition of "Employer"**

"Employer" is defined in the Act as "any person who pays or is liable to pay any wages" and includes—

(*a*) the Crown in the right of a State;

(*b*) a municipal corporation or the local governing body or a public authority constituted under any State Act;

(*c*) any public authority constituted under any Act or under any law in force in a territory of the Commonwealth the wages paid by which are not paid out of the Commonwealth Revenue Fund.

This is a most unsatisfactory definition, but it will be noted that it covers all classes of wages, so that wages paid by any employer, being a sole trader in carrying on his business, must include wages paid also to his domestic staff, gardener, chauffeur, etc. If, however, a business is conducted by a partnership (the definition of "company" includes a partnership), the wages for payment of which the individual partners are responsible are not aggregated with the partnership salaries and wages.

"Drawings" by partners, whether by way of salary or otherwise, are not subject to payroll tax because the payments are not made to "any employee as such."

**What Constitutes an "Employee"**

There is no definition in the Act of "employee," but it may be stated that the liability to tax exists in respect of all payments made where the relationship of employer-employee (that is: master-servant) exists. The tax does not fall upon payments made to an independent contractor. If the work to be done by one person for another is subject to the control and direction of the latter person in the manner of doing it, the person doing the work is a servant and not an independent contractor, and *prima facie* his reward would be wages. An independent contractor* undertakes to produce a given result but is not, in the actual execution of the work, under the order or control of the person for whom he does it.

Notwithstanding that the Articles of Association of a company provided that the secretary should be appointed by and be under the control of the directors, it was held that a practising accountant and secretary, who was a director of the company of which he was later appointed also the secretary, was not an "employee as such" and therefore the amount which he received from the company for the performance of his secretarial duties was not "wages" within the meaning of the Act. In the decision on this particular case it was stated that "While the directors of a company necessarily have control over the secretary, the degree of control is of great importance where the normal characteristics of employment are absent. These characteristics are the observance of regular hours of attendance at the company's office, the carrying out of the secretarial duties as his main (if not his sole) occupation, the enjoyment of annual holidays and (generally) the duty of constantly supervising part of the company's office staff."

**Exemption**

The Act provides for a general exemption of a fixed amount of payroll per annum. As from the inception of the Act this exemption was £1,040 up to October 1, 1953, from which date it was increased to £4,160. The general exemption was further increased to £6,240 as from September 1, 1954, and to £10,400 as from September 1, 1957.

The exemption is deductible in twelve fixed monthly instalments for the purpose of making monthly returns of wages and payments of tax. Any part of the exemption not applied may be carried forward from month to month, but not past June 30 of any year. Any tax overpaid on an annual basis is refundable.

**General**

There has been comparatively little litigation in the Australian Courts or even before the Taxation Boards of Review in regard to the operation of the Payroll Tax Assessment Act. The points in dispute have been more or less limited to the definitions of "employer" and "wages" and what constitutes an employee, and a brief outline of the position has been given above.

The main objection in Australia is to the principle of taxing wages and salaries, and the law has been condemned on this basis by representative organisations such as the Taxation Institute of Australia, the Federated Taxpayers' Associations of Australia, the Associated Chambers of Commerce and of Manufactures, the Retail Traders Association, the Employers' Federations, and both large and small individual employers. The ground of objection to the law is that it has a disproportionate effect on costs and prices, with inflationary consequences, and that it adds to costs in export industries and places Australian exporters at a competitive disadvantage.

The Federal Treasurer recently dealt with these objections in a Paper presented to Parliament on May 17, 1960, in which he defended the retention of the tax because of revenue considerations. He stated that to make good a loss (in revenue) to the order of £45 million other forms of taxation would have to be increased, some of which "might be considered inappropriate." The Treasurer did not indicate the yardstick by which the "inappropriateness" might be determined. Perhaps he might have

* See *F. C. of T. v. J. Walter Thompson (Aust.) Pty. Ltd.* (1944) 69 C.L.R. 69 and *Performing Right Society Ltd. v. Mitchell and Booker (Palais de Danse) Ltd.* (1924) I.L.B. 762).

meant "politically inexpedient" instead of "inappropriate." The fact remains that the tax is still unpopular in Australia, and successive increases in the rate of general exemption perhaps indicate the Government's recognition of this fact.

This article is not, of course, intended as a comprehensive review of the provisions of the Commonwealth Payroll Tax Assessment Act. Rather is it intended merely as a broad outline of the scope and application of the Australian law, in the hope that it will be of some assistance to those interested in and affected by the proposed payroll tax in the United Kingdom.

# Taxation Notes

**Finance Bill Debate**

The Finance Bill passed through the Committee and Report stages in the House of Commons with few amendments compared to last year. A new clause inserted by the Government contains supplementary provisions relating to Clauses 21 to 23, which cover the restriction of capital allowances on cars to expenditure not exceeding £2,000. The clauses as originally drawn contained two defects:

(*a*) Although hire-purchase agreements had been dealt with, the method of allocation of the amount payable under the agreements between capital and income had not been laid down. It is now provided that the capital element under a hire-purchase agreement shall be equal to what the car would cost to buy outright at the time when the agreement was entered into. Thus, if a car could be bought for cash for £5,000 and the total amount payable under the hire-purchase agreement is £6,250, the capital element will be £5,000. It should not be forgotten that only the capital element is restricted for this purpose. Regardless of the cost of the car, the interest element will be allowed in full—that is, in the above example £1,250 would be allowed as a charge against profits made in the period of payment.

(*b*) There was no provision restricting allowances where under the hire-purchase or any other agreement the property in the car did not pass. Amendments have been incorporated providing that, if the property never passes to the trader, the payments shall be treated as pure hire payments which will be restricted under Clause 23.

As a result of representations by Conservative members it has been provided that there will be no restriction of capital allowances in respect of cars which are purchased solely for the purpose of testing either the car itself or car parts or accessories. It will be up to the taxpayer to show that the car has been provided solely for testing purposes. If the car is purchased for purposes of testing but within five years of purchase it is used substantially for ordinary travel or any other purposes, the capital allowances—including those already given—will be restricted.

Northern Ireland has been excluded from liability under the provisions relating to surcharges on employers. The other amendments have been consequential on the above or are drafting amendments.

The Bill was read for the third time on July 6.

On page 288 of ACCOUNTANCY for May, it was stated that the Chancellor had announced that the annual value of the use of a car was to be taken as 12 per cent. of the original cost. This should have read "as $12\frac{1}{2}$ per cent. of the original cost."

**Investment Allowances and Motor Vehicles**

It is expressly provided by Section 16 of the Finance Act, 1954, that no investment allowance can be claimed in respect of expenditure incurred on the provision of road vehicles unless they are of a type not commonly used as private vehicles and unsuitable to be so used, or are provided wholly or mainly for hire to or for the carriage of members of the public in the ordinary course of a trade. [The word "not" qualifies "commonly" only and not "unsuitable"!]

The cars of car-hire firms, and public transport vehicles such as omnibuses, motor coaches and hearses, therefore qualify as well as lorries, etc., but the small farmer without a motor car will be refused the allowance on new horse-drawn carriages or similar passenger-carrying road vehicles (if any are now available). It appears, too, that the vehicles used by a motor school are not regarded as hired to the members of the public on the grounds that the schools' "trade" is driving tuition, to which any element of hire is incidental and not within the words "wholly or mainly." It is understood that a case has been so decided by the Special Commissioners. It would be interesting to take a case where the car is hired and tuition paid for separately.

Comparison may be made with the wording in the Finance Bill, 1961, in connection with the limitation on the value of motor cars to be taken into account for capital allowances, hire, etc. The limitation is not to apply where a vehicle is provided (or, as the case may be, hired) wholly or mainly for the purpose of hire to, or the carriage of, members of the public in the ordinary course of trade. Moreover, the Bill brings in only mechanically-propelled vehicles.

**An Anomaly**

If a husband and wife are joint holders of shares in a company (the husband's name appearing first in the register) where the articles of association give a vote only to the first-named joint holder, and the husband is not a director but the

wife is, it seems that the wife cannot be taken into account in deciding control as she has no vote at a general meeting. And remuneration paid to the husband would not be directors' remuneration.

**Reasonable Dividends**

What is a reasonable proportion of the profits to retain in the business of a controlled company for the purposes of Section 245 of the Income Tax Act, 1952, varies with the circumstances of each company and its requirements for current purposes and near future development. Where the liquid assets are ample, the Special Commissioners appear to be satisfied if the amount ploughed back does not greatly exceed the gross dividends distributed, so that the latter is about twice covered, and less than one-third of the profits before tax are ploughed back.

In the past, something like the figures shown below have been accepted.

It must be emphasised that in very many cases much bigger amounts require to be ploughed back into the business. The incidence of profits tax is heavier on companies paying away dividends whose gross amounts are twice covered than when the two-tier system was in force.

If readers will give us the benefit of their experience in negotiating dividends, we shall be pleased to pass them on for the benefit of other readers.

| | *Two tier profits tax at 3 per cent. and 30 per cent.* £ | £ | | *Single tier profits tax at 10 per cent.* £ | £ |
|---|---|---|---|---|---|
| Profits .. .. .. .. .. | | 200,000 | | | 200,000 |
| Income tax .. .. .. .. .. | 85,000 | | | 77,500 | |
| Profits tax .. .. .. .. .. | 6,000 | | | 20,000 | |
| | | 91,000 | | | 97,500 |
| "Commercial profits" .. .. | | 109,000 | | | 102,500 |
| Dividend about 30 per cent. net, say (Gross £55,652) .. .. .. | | 32,000 | Div. about 40 per cent., say (Gross £65,306) | | 40,000 |
| | | 77,000 | | | |
| Additional profits tax on gross dividend of £55,652 .. .. .. | | 15,026 | | | |
| Ploughed back .. .. | | £61,974 | | | £62,500 |

Dividends of up to 45 per cent. of the commercial profits have been suggested, but that seems to be too much.

With the increases in profits tax, the picture should look like this:

| | *Profits tax 12½ per cent.* £ | £ | | *Profits tax 15 per cent.* £ | £ |
|---|---|---|---|---|---|
| Profits .. .. .. .. .. | | 200,000 | | | 200,000 |
| Income tax .. .. .. .. .. | 77,500 | | | 77,500 | |
| Profits tax .. .. .. .. .. | 25,000 | | | 30,000 | |
| | | 102,500 | | | 107,500 |
| "Commercial profits" .. .. | | 97,500 | | | 92,500 |
| Dividend about 37½ per cent., say (Gross £59,592) | | 36,500 | About 35 per cent., say (Gross, £53,061) | | 32,500 |
| Ploughed back .. .. | | £61,000 | | | £60,000 |

**Error or Mistake Claims**

Under Section 66 of the Income Tax Act, 1952, a person who has paid tax in any year under Schedule D or Schedule E can claim relief if he shows that the assessment was excessive by reason of some error or mistake in the return or statement made by him for the purposes of the assessment. No relief is due if the return or statement was made on the basis of, or in accordance with, the practice generally prevailing at the time when it was made.

In a recent appeal the Special Commissioners decided that, where the assessment was an estimated one made in advance of a return or accounts, the taxpayer could not invoke Section 66, even though the assessment had been adjusted in accordance with the accounts subsequently submitted. In Parliament on June 2, 1961, the Financial Secretary of the Treasury stated that this did not accord with the practice of the Board of Inland Revenue, and the Board is advised that, where a return or accounts submitted after the making of an estimated assessment have been accepted for the purpose of arriving at the final assessment, the fact that the assessment was made in advance of the rendering of the return or accounts does not of itself rule out a claim under Section 66 which would otherwise be admissible. The Board will continue to adopt this general line in considering claims under the Section, and will make its view clear to the appellate Commissioners if the point is raised on an appeal before them.

**Defence Bonds**

Most issues of Defence Bonds require six months' notice before encashment. If it is desired to encash them without such notice, six months' interest is deducted from the total of the face value of the Bonds plus accrued interest to the date of application (all interest is gross). For the purpose of assessment under Case III of Schedule D, the source is then regarded as having ceased on the date of application, and the "penalty" can be deducted in computing the interest arising in the year. If the

application for encashment is made before the first due date for interest in the year of cessation, it is understood that the previous year of assessment can be treated as the year of cessation, so that the excess of the penalty over the current year's accrued interest can be deducted from the interest of the previous year.

For estate duty, Defence Bonds may be valued at the immediate encashment price—that is, plus the accrued income, less the six months' interest—despite the fact that the penalty is not exacted if the personal representative encashes the Bonds on winding up the estate.

**Double Taxation — Termination of Singapore Agreement**

As a result of notice of termination given by the Government of the State of Singapore, the agreement for the avoidance of double taxation in respect of taxes on income between Singapore and the United Kingdom, which came into force in 1949, will cease to have effect from next year. The Government of Singapore has proposed that there should be negotiations for a fresh Double Taxation Arrangement to take its place.

# Recent Tax Cases

**Income Tax**

*Income—Payment of lump sums for imparting technical knowledge—Whether income or capital receipt—Income Tax Act, 1952, Schedule D, Case I.*

In **Jeffrey v. Rolls Royce, Ltd.: C.I.R. v. Same** (C.A. 1961, 2 All E.R. 469) the Court of Appeal reversed the decision of Pennycuick, J. ([1960] 2 All E.R. 640), which was noted in ACCOUNTANCY for August, 1960 (pages 469–70). The respondents were manufacturers of aero engines, and in 1946 they entered into an agreement with the Republic of China under which they undertook to supply complete drawings and manufacturing and engineering data and information necessary to enable engines of a particular type to be manufactured in China. They also agreed to provide full information from time to time with regard to improvements and modifications in the manufacture and design of the engines. The agreement was of five years' duration but could be extended for a further five years at the option of the Chinese. The respondents received a royalty (as to which no question arose) on all engines and parts of engines manufactured under licence, but the agreement also provided for the payment of "a capital sum" of £50,000 "as consideration for the rights granted" under the agreement. In the next six years the taxpayers made similar agreements with several other countries which they would be unable to penetrate by any other method. They were assessed to income tax under Case I of Schedule D to the Income Tax Act, 1952, on the basis that the £50,000 was a revenue receipt.

Pennycuick, J., who had felt himself bound by the decision of the House of Lords in *Moriarty* v. *Evans Medical Supplies, Ltd.* [1957] 3 All E.R. 718, had found for the taxpayers, and the Crown appealed. It was conceded that if the taxpayers had sold their technical knowledge for a lump sum on one occasion only, they would be selling a capital asset and the receipt of that sum would be a capital receipt. But oft repeated sales of growing technical knowledge, it was said, constituted receipts of the taxpayers' trade and were a development of their general trade in the manufacture and sale of aero engines. The taxpayers, for their part, contended that the sum paid under the China agreement represented the sale price of technical knowledge, including secret processes; that they had never before sold such knowledge; that they were therefore selling part of their fixed assets; and that the mere repetition of such a transaction, however frequent, did not itself change the nature of the transaction.

Holroyd Pearce, L.J., said the *Evans* case had caused much diversity of view in the House of Lords, and, for that reason and because the only agreement in that case was in a different form from the agreements in the *Rolls Royce* case, it did not provide any great help. In the latter case the Special Commissioners had found that "it had never been any part of the policy of the [taxpayers] to make inventions and discover secret processes with a view to the earning of profits by realising [their] rights in those inventions and processes." The Commissioners, however, had considered the China agreement alone, whereas it did not stand alone but had to be considered in the light of surrounding circumstances and subsequent events. The facts created a strong impression that, in territories where the taxpayers could not hope to sell their engines, they were pursuing a wise policy of allowing local manufacture from which they would receive the benefits of advertisement, lump sums and royalties. This was not in substitution for the sale of their own engines in territories where this was possible, but a collateral and supplementary method of trading where direct sales could not be achieved.

In each agreement there was no allocation of the lump sum payment to the disclosure of technical knowledge. That was but one of the benefits conferred by the agreement, including the training of staff and the interchange of employees. The mere fact that the imparting of technical knowledge was one of the considerations for the payment of the lump sums did not take those sums out of the category of trading receipts, when the rest of the agreement was devoted to producing trading receipts. Indeed, the knowledge sold in the case was not some secret of permanent value which passed on the transfer or termination of a business, but the transient by-product of advancing engineering science. It accrued automatically from the taxpayers' business of manufacturing aero engines and in a comparatively short time was superseded and had lost its value. It was the kind of knowledge which could easily merge its character of a fixed asset into that of a trading asset. So far as the lump sums were paid in

respect of the imparting of knowledge, they were sums regularly received as an ingredient of the taxpayers' policy of making manufacturing agreements to secure royalty income. To such agreements the disclosure of technical knowledge was a necessary adjunct, but it was a means rather than an end.

Upjohn, L.J. (who delivered the judgment at first instance in the *Evans* case) said that in the *Evans* case the transaction was isolated and special; in the *Rolls Royce* case the only reasonable inference to be drawn from the evidence was that, as a deliberate matter of policy, the taxpayers had embarked on a course of licensing others to manufacture engines where it was difficult or impossible to export engines of their own manufacture. Donovan, L.J., concurred and said he would have reached the same conclusion if the large expenditure on research and experiment undertaken by the taxpayers, which contributed so much to their knowledge and skill, had not been allowed as a revenue expense when computing chargeable profits. The appeal of the Crown was accordingly allowed.

**Income Tax**

*Children's allowance—Whether child's income exceeding limit—Income Tax Act, 1952, Section 212.*

Section 212 (4) of the Income Tax Act, 1952, provides that:

> No relief shall be allowed under this Section in respect of any child who is entitled in his own right to an income exceeding one hundred pounds a year.

In **Prince v. Phillips** (Ch. 1961, T.R. 45) the appellant had two sons born on April 17, 1940, and April 7, 1941, who were in receipt of full-time instruction and were wholly dependent on the appellant until July, 1957, and October, 1957, respectively. The elder son began work in August, 1957, and his earnings for 1957/58 were £150. The younger son began work in September, 1957, and his earnings for the same year were £112, less £6 National Insurance contributions (which were admitted by the Crown to be a legitimate deduction in computing income under Section 212 (4) ). The appellant contended that as each of his sons was not in receipt of an income exceeding £100 a year for part of 1957/58, Section 212 (4) was satisfied and he was entitled to a child allowance in respect of each son for that year. In relation to the second son, he further contended that that son had to spend at least £10 in the tax year in question in travelling between his home and his office and in obtaining a midday meal. The General Commissioners decided that no child allowance was competent.

Buckley, J., said the Crown's case was that "income" in Section 212 (4) had the same meaning as elsewhere in the Act of 1952—that is to say, income for income tax purposes—and that the cases of *Ricketts* v. *Colquhoun* (1926) 10 T.C. 118 and *Sanderson* v. *Durbridge* (1955) 36 T.C. 239 established that for the purpose of Schedule E tax the taxpayer was not entitled to deduct from his income expenses which did not arise actually in the performance of his office or employment, such as the cost of travelling to and from work or the cost of providing himself with food during the part of the day when he was at work. That submission was sound; indeed, if it were not, it would be extremely difficult to determine precisely what expenditure was so essential in the case of a child as to be a proper deduction. Travelling expenses and the cost of providing himself with a midday meal were expenses which the younger child had to provide out of his income, not expenses which had to be deducted before ascertaining his income. Both children were in receipt of an income exceeding £100 in the relevant year, and the appeal failed.

**Surtax**

*Company—"Member" of company—Meaning—"Share or interest" in "capital or profits or income"—Whether debenture stockholders have an "interest" in company—Income Tax Act, 1952, Sections 245, 255 (2), 256 (2).*

In **C.I.R. v. R. Woolf (Rubber) Ltd.** (1961, 2 All E.R. 651) the Court of Appeal has reversed the decision of Danckwerts, J., which was noted in ACCOUNTANCY for March, 1961 (pages 163–5). The appellant company, which was a trading company, did not have five or fewer shareholders who together controlled the company by their shareholding, nor was control in the hands of five or fewer persons according to the extended definition of control in Section 256 (2) (*a*) and (*b*) of the Income Tax Act, 1952. At its inception, however, the company issued debenture stock for £600,000 to a number of persons, of whom five held more than half of the stock for full and *bona fide* consideration.

Section 256 (2) (*c*) of the Act of 1952 provides that:

> For the purposes of this Section, a company shall be deemed to be under the control of not more than five persons . . .
>
> (*c*) if—(i) on the assumption that the company is a company to which the said Section 245 applies; or (ii) on the assumption that the company and any other company or companies are companies to which the said Section 245 applies, more than half the income of the company (including any income which has been apportioned to it, or could on either of those assumptions be apportioned to it for the purposes of this Chapter [that is, Chapter III of Part IX of the Act]) could be apportioned for those purposes among not more than five persons,

while Section 255 (2) of the Act states that

> In this Chapter, "member", in relation to any company, shall include any person having a share or interest in the capital or profits or income of the company.

The Crown alleged that five or fewer debenture-holders could have apportioned to them, on the statutory assumptions under Section 256 (2) (*c*), more than one-half of the income of the company. The debenture-holders, it said, had a fixed charge on the company's freehold property and a floating charge on its general assets; and each such charge constituted an interest in the capital or profits or income of the company within the definition of "member" in Section 255 (2). The company contended that a debenture-holder might have an interest in the assets of the company, but not an interest in the capital or profits or income as such. Those words, it said, connoted such an interest as could be expected to fructify in a dividend, not an interest which was simply that of a creditor.

Upjohn, L.J., said the word "members" was defined in Section 26 of the Companies Act, 1948, as persons on the register of members of a company. It was essential to remember this when interpreting Section 255 (2) of the Act of 1952. A member had no share or interest in the assets of the company, for it was a fundamental concept of company law that the company was the beneficial owner of its assets. The share or interest of a member in the capital of a company had no precise legal signification. It might refer to the share or interest of the member in the issued share capital, or to his right to receive a dividend in the liquidation of the company after all creditors had been discharged. The share or interest of a member in profits or income did not mean the share or interest in the daily income or profits earned by the company, which belonged to the company and went to swell its coffers. "Profits or income" in Section 255 (2) meant the profits or income of the company when

ascertained by its accounts over a trading period and available for dividend. Even then the shareholder had no right to those profits or income, unless actually declared by way of dividend.

Sub-Section (2) was introduced to bring within the ambit of Section 255 persons who were not members of a company, as they were not on the register, yet had a share or interest in the capital or profits or income because they were option-holders, beneficiaries under trusts or even creditors with payment of interest depending on profits earned by the company (see Palmer's *Company Precedents*, sixteenth edition, forms of debentures numbers 67–71). In the last-mentioned instance the debenture-holders were caught, not because they were secured, but for the reason that payment of their interest depended directly on the profits earned by the company, so that they had an interest in those profits. In the particular case, the secured debenture-holders had an interest in the physical assets of the company, so that when the security became enforceable they could step in and claim those assets and run the undertaking for their own benefit; but they had no right to or interest in the profits or income out of which a dividend might be declared, and were not "members" within the meaning of Section 255 (2).

Holroyd Pearce, L.J., said that Section 258 (3) of the Act expressly extended the word "member" to include loan creditors in the case of investment companies, but not in the case of trading companies. Debenture-holders, generally, were not members because they did not share in the accumulations of undistributed profits or income. If, by the special terms of the debenture, they did so, it would not be as debenture-holders *simpliciter*, but as debenture-holders who had a special share or interest in profits or income. For the purposes of the Sections in question, an "interest" meant such an interest as might be expected indirectly to yield income benefits. So read, the scheme of the Sections was sensible and efficient, but construed as the Crown suggested it was unnecessarily wide and artificial and might lead to unfair and absurd results.

The appeal of the company was therefore allowed.

# Tax Cases—Advance Notes

COURT OF APPEAL (Pearce, Upjohn and Donovan, L.JJ.).

**Ellwood v. Cenlon Finance Co. Ltd., Williams v. Tableau Holdings Ltd.** May 1, 1961.

Their Lordships unanimously allowed this appeal by the Revenue from the decision of Cross, J. (See ACCOUNTANCY for August, 1960, page 473, and October, 1960, page 589).

**Griffiths v. J. P. Harrison (Watford) Ltd.** May 5, 1961.

Their Lordships (Donovan, L.J., dissenting) dismissed this appeal by the Revenue from the decision of Danckwerts, J. (See ACCOUNTANCY for November, 1960, page 659, and December, 1960, page 719.)

**Murray v. Aviation and Shipping Co. Ltd.** May 9, 1961.

Their Lordships unanimously allowed this appeal by the Revenue from the decision of Danckwerts, J. (See ACCOUNTANCY for December, 1960, page 720, and February, 1961, page 95.)

COURT OF APPEAL (Evershed M.R., Harman and Donovan, L.JJ.).

**Forest Side Properties (Chingford) Ltd. v. C.I.R.** June 16, 1961.

Their Lordships unanimously dismissed this appeal by the taxpayer from the decision of Danckwerts, J. (See ACCOUNTANCY for November, 1960, page 659, and February, 1961, page 95.)

**Brown v. Bullock.** June 26, 1961.

Their Lordships unanimously dismissed this appeal by the taxpayer from the decision of Danckwerts, J. (See ACCOUNTANCY for December, 1960, page 721, and February, 1961, page 97.)

CHANCERY DIVISION (Buckley, J.).

**Johnson v. Jewitt.** May 1, 1961.

The appellant taxpayer, in partnership with two other people, started a business trading in securities. The firm was concerned in three different series of operations, in all important respects identical. Each series involved dealings in the shares of twenty different companies. Each of these companies had been promoted by a third party and capitalised at £100, which initially represented its total assets. The third party then borrowed £50,000 from the firm, which he gave to the first company. He then sold the shares in this company to the firm for £50,125, which enabled him to repay the firm the £50,000 he had borrowed. At this stage the firm owned all the shares in the first company, and the assets of this company consisted of £50,100 in cash, of which £50,000 represented the gift and £100 the subscribed share capital. The firm then borrowed £50,000 from the first company, which it lent to the third party, who gave it to the second company, whose shares he then sold to the firm for £50,125, which once more enabled him to repay the £50,000 he had borrowed. At this stage the firm owned all the shares in the first and second companies, but the assets of the first company now consisted of £100 in cash and £50,000 owed to it by the firm, while the assets of the second company consisted of £50,100 in cash of which—as originally was the case with the first company—£50,000 represented the gift and £100 the subscribed share capital. This process was repeated with all twenty companies, each of which at the end of the series of transactions described above had assets worth £50,100. Every company then, over a certain period of time, proceeded to declare dividends to the extent of the greater part of its assets, which naturally went to the firm. Finally the firm sold all its shares in the twenty companies at a considerable loss, which was only to be expected since each company had been stripped of its assets. The taxpayer claimed to set off his share of this loss under the Income Tax Act, 1952, Section 341, against the dividends he had received from the twenty companies, on the basis that the dividends were paid out of taxed funds. Buckley, J., affirming the General Commissioners, held that the transactions which gave rise to the alleged loss, having no genuine commercial character, were not in the course of trade; and, further, that none of the twenty companies had ever made profits chargeable to tax, that the dividends on which tax was sought to be recovered were paid out of capital reserves, and that therefore no tax could be recovered on them.

# The Month in the City

**Acute Uncertainty**

Any student of stock market movements knows that nothing is so depressing to prices as major uncertainties, and the month of June and the first days of July have produced an ample crop of these. The private investor, who had in large measure been responsible for the rise in industrial ordinary shares, has been selling and in many cases taking a good profit, while the institutions have been holding back so far as they could, at least from longer term investment. The result has been markedly felt in almost all sections of the stock market. If the Government has failed to take effective action, its spokesmen have made it abundantly clear that they regard the balance of payments position as very disturbing. It is now evident that under almost every major head the position of this country deteriorated in 1960 and that but for the influx of "hot" money this would have become obvious long ago. That it was so to many competent observers did not prevent the majority from ignoring it. Sterling has depreciated steadily throughout recent weeks, in spite of the not infrequent official intervention, reflected in the fall in the gold reserves, and the fact that other central banks have made a material contribution to stability by increasing their holdings of sterling balances. The money market has frequently been under pressure, and this has raised bill rates and those for short bonds, while general doubts as to the future of sterling have made for a distinct disinclination to buy longer-dated Funds. The main selling—accompanied by marking down to escape overloading of jobbers' books—has, however, been in industrial equities. The yield on those included in the index of the *Financial Times* has risen by over 12s. in the past five weeks, while that on Old Consols is less than 9s. higher, thus reversing the long-term trend of a substantial period for the margin to increase. The reasons for this movement are not very complex. First, intricate calculations had already shown that dividends would have to be quadrupled over the next seven or eight years to justify investment in growth equities at recent prices as against taking a dated gilt-edged stock. Second, it has gradually been borne in upon the optimists that there is probably no escape from a widespread fall in profits.

**Prospect for Equities**

Although the index quoted now gives industrial ordinary shares a lower value than a year ago, it is not certain that this fully discounts what some of the converted optimists are now arguing. With no improvement in the balance of payments position, except a slightly better showing on current merchandise account; wage demands continue to multiply; so do actual grants which must raise wage costs. A number of unofficial strikes or stoppages have not improved the position of the companies concerned. It is now thought that the Chancellor of the Exchequer will impose the full 10 per cent. rise in indirect taxes; this should go some way to offset the effects of higher wage rates on the demand for goods. No doubt if this were followed by a realisation by labour and management that their best interests lay in an all-out effort to increase productivity, all might still be well. But the implementation of such a policy would take time and, meanwhile, the fall in profit margins, already visible, might well continue. While hoping that some such development may occur, it seems unduly optimistic to suppose that it can altogether offset the ill effects on many companies in the current year. Meanwhile, uncertainties about such matters as some arrangement with the Common Market continue to raise doubts as to the outlook for the next couple of years or so—while the Kuwait trouble will tend to add to government expenditure in foreign currencies, which it is now part of official policy to attempt to reduce. Add to this the fact that, even at the reduced prices, many companies propose to raise new capital by rights issues of ordinary shares, and one may well agree that the outlook is for a considerable period of lower prices. The liberty given to trustees by the new Act should provide support for equities at the expense of the Funds. One development—other than a quite improbable change of heart by all sides of industry—which would alter the whole picture is renewed inflation and a devaluation. Fortunately for the longer-term fate of all investors, there is every evidence that this is desired by very few people here, and that there will be massive assistance from outside to stave off such an evil. The need for internal action is stressed by the news that the fact, or prospect, of higher wage packets has already been reflected in a sharp rise in new hire purchase business.

**A Spate of Issues**

The total amount of new money raised in June was some £61 million, of which over two-thirds was in equities, almost one quarter of the latter figure going to Wallpaper Manufacturers. Amounts being raised during July are formidable. Royal Insurance is to raise £22 million by a rights issue on terms which include a massive bonus element. Distillers wants £32 million, M. Samuel is to apply for £17 million and Barclays Bank is to take a substantial sum. In addition, a number of steel companies have massive plans, including £15 million for Colvilles, while Richard Thomas & Baldwins has now received £25.7 million from the Exchequer. There are only some of the highlights. Meanwhile, City Centre Properties is to issue unsecured loan stock, but is not relying directly on the market for much of its funds. During recent weeks this concern has concluded arrangements with a number of leading industrial companies for the investment of part of their pension funds.

**Defeating the "Stag"**

The offer of Parway shares by Kleinwort, Benson, Lonsdale by tender proved a resounding success. There was a heavy over-subscription and eventually the shares were placed at 17s. 6d., or 1s. 6d. above the minimum. A substantial proportion of total applications were below that price and were rejected, but all other applicants received an allotment at 17s. 6d. This has been followed by another offer on a similar basis, that of New Town Properties by Belisha & Company. Here the minimum price was 1s. 6d. and the allotment made at 1s. 10d. Again the issue was over-subscribed, apparently without assistance from "stags." The suitability of this method for really large issues has still to be tested. Meanwhile, the Stock Exchange Council is considering an application to defeat the "dud cheque stag" by permitting prospectuses to insist on bankers' drafts or certified cheques from all applicants.

# Points From Published Accounts

**Simplified Results Statements**

A number of British companies publish their results in two separate ways: fully and in normal accounting form to comply with legal requirements and satisfy the financial wizard, and in a more simple, and possibly pictorial, fashion, for the man in the street. Typical of the non-pictorial form of presentation are the 1960 simplified group results, reproduced this month, of the *A.E.I. Group*.

Another company which makes the fullest use of such methods is the *Midland Employers' Mutual Assurance Ltd.*, whose 1960 accounts were mentioned in this feature last month. Two of the diagrams mentioned then are now reproduced in black and white. The original employs maroon also.

There are of course countless ways in which an analysis of income and expenditure may be made. In its 1959 accounts Boulton and Paul Ltd. had a full-page diagram showing an adding machine complete with run list. On the latter appeared a breakdown of £1 of income. This year the same company uses an effective three-colour chart showing the relative importance of items of expenditure by means of sawn-off lengths of girder, a reminder of the company's interest in constructional work. In each case, in addition to showing how £1 of the company's income was used, the chart discloses the total sum spent on each item. Somewhat similar is the neat presentation employed by *British Drug Houses Ltd.*, in which a large red £ sign is subdivided to show where the money went. The *Darwins Group Ltd.*, by using a calendar, demonstrates most effectively the minor share of receipts which finds its way into the hands of shareholders. Dividends represent six days' takings, whereas materials supplies and services, wages and salaries, took 333 days!

## THE AEI GROUP OF COMPANIES

**HOW WE FARED DURING 1960**
Simplified group profit and loss account for 1960

| | | £ |
|---|---|---|
| During the year, we sold goods to the value of | | 215,297,580 |
| The cost of materials, wages and transport, etc., involved in the making and selling of these goods | | 199,693,515 |
| leaving a balance of earnings | | 15,604,065 |
| Add income from investments and other sources | | 1,835,230 |
| | | 17,439,295 |
| The amounts we had to provide for making good the wear and tear on property and machinery, and other charges, such as interest, were: | £ | |
| depreciation | 6,395,052 | |
| other charges | 1,657,805 | |
| | | 8,052,857 |
| reducing the balance to | | 9,386,438 |
| From this we have had to provide for income tax and profits tax | | 3,769,414 |
| leaving | | 5,617,024 |
| We must deduct the proportion of the net profits of certain subsidiary companies which belongs to those, other than AEI Ltd, who own shares in those companies | | 181,190 |
| | | 5,435,834 |
| And we must add amounts provided for taxation in earlier years, not now required | | 117,687 |
| **The balance remaining—the profit available to the AEI stockholders—was** | | 5,553,521 |
| Of this sum, the net dividends payable for 1960 take | | 4,104,912 |
| **The final balance, which is added to the AEI ordinary stockholders' investment, and which is used to develop and expand the prosperity of the group, amounts to** | | £1,448,609 |

**HOW WE STOOD AT THE END OF 1960**
Simplified group balance sheet at 31st December 1960

| | | £ |
|---|---|---|
| The money provided by stockholders as capital was | | 87,956,190 |
| Profits made in past years and retained in the Group for development and expansion amounted to | | 50,950,084 |
| **The total stockholders' investment in the group was therefore** | | £138,906,274 |
| WE OWNED | | |
| Factories, machines, tools, vans, and so forth, the cost of which, less the amount provided from earnings to replace them as they wear out, was | | 59,982,289 |
| Shares in other concerns | | 12,303,235 |
| Materials in the stores, goods partly made, and finished goods not yet sold, worth | | 93,840,582 |
| Cash, or the equivalent | | 2,478,641 |
| WE WERE OWED | | |
| By our customers for goods supplied, less what we owed to our suppliers, bankers and the Inland Revenue authorities | | 4,664,096 |
| | | 173,268,843 |
| BUT WE IN TURN OWED | £ | |
| Dividends for 1960, not payable until 1961 | 2,708,269 | |
| A sum set aside to meet taxation that will be charged later on the profits for 1960 | 4,805,630 | |
| Money borrowed in 1958, to be repaid by 1978/83 | 25,000,000 | |
| The share in the AEI group assets belonging to those, other than AEI Ltd, who own shares in our subsidiary companies was worth | 1,848,670 | |
| | | 34,362,569 |
| **When these debts are deducted from what we owned and were owed, this leaves us with the stockholders' investment as shown above** | | £138,906,274 |

**City and County Borough of Coventry**
A model of clarity, the accounts of the City of Coventry give some idea of the enormous responsibility of local government officials. Growing though it is, Coventry is still not one of our really large cities—its population in 1961 falls a little short of 300,000. Yet its outstanding debt has risen from a mere £327,604 in 1900 to £45,250,664 in 1961. Annual loan charges are today more than ten times the total debt in 1900. In 1960/61 the council issued £6 million of 6 per cent. stock. All told, it raised from lenders over £18 million, and repaid nearly £16 million.

Never overburdened with details, the accounts extend over some 240 pages. Their form is modern, descriptions commencing not with the left hand margin but at such a point as to conclude immediately to the left of the amount column. The appearance of page numbers half way up the outer margins is more difficult to get accustomed to.

**Selincourt and Sons Ltd.**
At first glance the cover to the accounts of *Selincourt and Sons Ltd.* suggests a meeting of the Ku Klux Klan. In reality, the ghost-like figures appearing on a sheet of tracing paper are the key to a painting by Arthur Drummond on the cover proper. The original painting hangs in the Selincourt boardroom. The accounts themselves are a model of clarity, and, whilst the company comes nowhere near the leaders in the race for speedy presentation, no little effort must have been involved in their preparation. No fewer than twelve subsidiaries were acquired during 1960, six of them during the last ten days of the calendar year. Half of the newly-acquired companies made up their accounts to a year-end other than December 31, so the 1960 accounts of the group include the results of many of the companies for periods other than a year—in one case profits for nineteen months are included, and in another for a mere nine months.

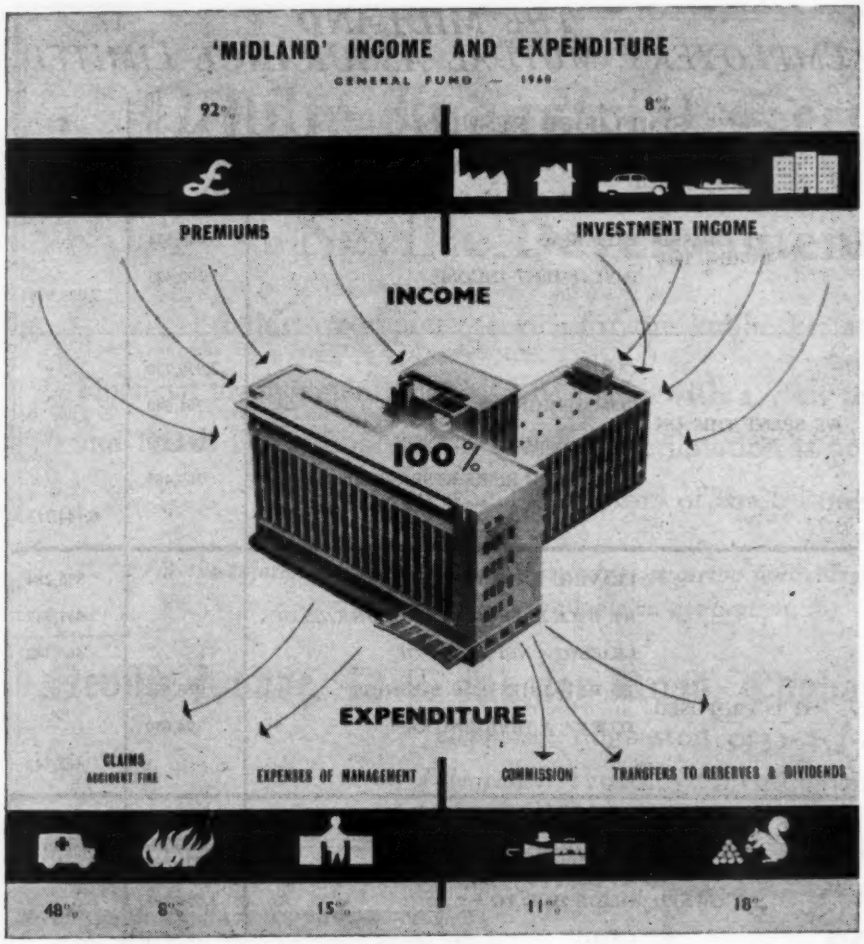
*THE MIDLAND*
*EMPLOYERS' MUTUAL ASSURANCE LIMITED*

| SIMPLIFIED RESULTS<br>GENERAL FUND | | £ | £ |
|---|---|---|---|
| WE EARNED DURING 1960 | PREMIUMS | 6,449,574 | |
| | INVESTMENT INCOME | 590,423 | 7,039,997 |
| WE SPENT THIS ON | CLAIMS | 3,939,738 | |
| | COMMISSION TO AGENTS | 761,340 | |
| | MANAGEMENT EXPENSES | 1,074,172 | |
| | UNEXPIRED RISKS RESERVE ADDITIONS | 369,463 | 6,144,713 |
| | LEAVING A PROFIT OF | | 895,284 |
| | *WE WILL HAVE TO PAY TAX ON THIS OF* | | 431,942 |
| | *LEAVING A NET PROFIT OF* | | 463,342 |
| IT IS PROPOSED | TO RETAIN IN THE BUSINESS | 368,692 | |
| | TO PAY A DIVIDEND OF | 94,650 | 463,342 |
| AT 31st DECEMBER 1960 THEREFORE | | | |
| WE OWNED | INVESTMENTS | 11,251,564 | |
| | DEBTS DUE TO US | 1,556,795 | |
| | CASH | 255,275 | 13,063,634 |
| REPRESENTING | SHAREHOLDERS' INTERESTS | 1,629,353 | |
| | FUNDS TO MEET FUTURE CLAIMS, DEBTS DUE BY US AND RESERVES | 11,434,281 | 13,063,634 |
| *APART from the Assets of £13,063,634 there are Life Fund Assets of £7,258,235* | | | |
| | MAKING A TOTAL FOR THE COMPANY OF | | £20,321,869 |

**De La Rue**
The *De La Rue* annual report for the year ended April 2, 1960, made up in three parts in a folder, was the only one to receive a Certificate of Merit at the British Association of Industrial Editors Conference at Southport this June. Claimed by the company to "meet the modern requirements which make such a document an account by the management of their stewardship of the company in a form suitable not only to financial experts, but also to shareholders, employees and a broader public," the 1960 report has been followed by one similar in basic format but containing several new features. Again the report is in three parts, but this year contained in an indented outer sleeve, which is more compact and more easily handled than the folder with pocket used for last year's version.

One new feature in the 1961 report and accounts is the inclusion of individual photographs of all members of the Board, together with brief biographical details. Another is an analysis of ordinary shareholdings and of the number of employees over the past ten years. As last year, a separate document entitled "Summary of Report" gives the salient points from the Chairman's Review in a brief form suitable for those without need to analyse the full report and accounts. Last year's section on Group Products and Organisation is not repeated. Instead there is a more detailed study of one of the members of the group, Formica Ltd.

**The Booker Group**
Holding companies are now so common, and groups frequently so complex, that it is scarcely surprising that many supply shareholders with lists of subsidiaries




and the products upon which they are engaged. There are various ways of doing this, though one of the most effective and certainly the most ambitious is that employed by the *Booker Group*. A large (36″ × 18″) multi-colour organisation chart is supplied, showing Booker Brothers, McConnell & Co. Ltd. at the head, and its interests in other companies grouped according to their activities. Symbols show firstly the activity and secondly the location of each company. Since the Booker Group has interests not only in the United Kingdom but in British Guiana, Jamaica, Trinidad, Barbados, Northern Rhodesia, Nyasaland, the Union of South Africa, Canada and India, and in such diverse fields as retail and wholesale distribution, agriculture, engineering, rum, shipping, petroleum marketing, advertising and printing, the chart is most impressive.

**Comparative Figures**

The question is sometimes raised: Does a private company which is turned into a public one have to include comparative figures in its first year as a public company? Since the Companies Act appears to provide no exemption, and there is a continuance of existence on the part of the company, it seems that the law is contravened by failure to supply them. But in the accounts of one such company received this month the omission of comparative figures was accepted without qualification by the auditor. It would be interesting to have readers' opinions not only on this but on the reasons for which companies, some of them very large ones, reduce the information supplied in respect of the previous year so as not to provide everything called for by the Eighth Schedule. It is commonly found, for instance, that only the net book value of fixed assets is stated, not the cost and aggregate depreciation at the end of the preceding year. Yet these figures are essential if one is to construct a Funds Flow Statement. Admittedly, where available, the preceding year's accounts may be referred to, but it is surely the main aim of comparative figures to avoid this.

# Letters to the Editor

**Chartered Accountants' Hockey Club**

Sir,—The Club intends to be represented in sufficient strength at the *Eighth International Congress of Accountants* to be held in New York in September, 1962, to make it possible for the hosts to organise a Field Hockey Tournament to be run in conjunction with the Congress.

Members of the Club have already been circularised, but the Secretary would be glad to hear from hockey players, including those of the Scottish and Irish Institutes, who are proposing to be in New York for the Congress and who would like to be considered for selection in these representative matches.

WILLIAM S. CARRINGTON, *President*
STANLEY N. ELGAR, *Secretary*
*22 Queen Anne Street,*
*London, W.1.*

**Annual Meeting**

Sir,—I have read, with interest, the report of the Institute's annual meeting (ACCOUNTANCY, May, 1961, pages 308–10).

Is it not possible to hold the annual meeting in the provinces occasionally, thus allowing provincial members to attend?

I was amazed to read on page 310 that only five Council members are not in practice. To my mind the accountant in industry providing management with salient up-to-date figures is performing a professional service at least as important as auditing and taxation.

I have found that because of the training and temperament of accountants in industry assignments are given to them devoid of pure functional accounting.

In my opinion the Institute and the District Societies appear to exist mainly for the accountant in practice.

Yours faithfully,
D. H. DOCWRA, A.C.A., A.A.C.C.A.
*Leeds.*

[NOTE.—The stipulation that five seats must be reserved for members not in practice does not mean that this minimum number must not be exceeded; there are seven non-practising members on this year's Council. —Editor.]

**"Mechanically Propelled Vehicle"**

Sir,—The case of *Newberry* v. *Simmonds*, reported in ACCOUNTANCY for June (page 374), where the Court held that a motor car from which the engine had been removed was still mechanically propelled, creates a situation full of curious possibilities.

If the definition of a mechanically-propelled vehicle is now a vehicle capable of being fitted with mechanical propulsion, there is no reason why it should be restricted to a vehicle originally designed as a motor car. It can equally apply to any other vehicles, such as a horse drawn cart, a milk float, or even a shopping basket on wheels.

Following the same line of argument,

there is no reason why the presence of wheels should prove the existence of a vehicle, for the Court could equally find that the possibility of fitting wheels was sufficient to make any object a vehicle. Any object, therefore, placed upon a public road could be deemed to be a vehicle and therefore require a road fund licence.

The poor owner of any object is not safe, even if he keeps it off the public road. If he deposits a suitcase on a public footpath, he can be deemed to be driving a mechanically propelled vehicle on a public footway and incur serious penalties: penalties which can be even more severe if he were found to be without a driving licence or proper third-party insurance cover.

Yours faithfully,

ALEX F. DAVIES, F.C.A.

*Leigh-on-Sea.*

**Education and Training**

Sir,—Having just read the report of the Committee on Education and Training, I feel the absence of any suggestion of an alternative method of qualifying for membership of the Institute is to be regretted. A method similar to the bye-law system of the Society and a scheme whereby persons employed in central and local government or in commerce or industry can qualify would not harm the Institute. This was proved by the success of the scheme of integration in 1957. If the recommendations are adopted, the Institute may (and surely will) lose many members who would be valuable members.

The whole report appears to be looking for methods of making the cost of qualifying even more expensive than it is; even with the salaries offered to articled clerks today, many young people have to think twice before entering the profession.

Paragraph 210 is wholly out of sympathy with the young qualified man today and I suggest that, if the members of the Committee really believe that "A profession does not benefit from candidates attracted to it more by financial reward than by the opportunities which a professional career offers", they should publicly state the reasons for becoming chartered accountants.

Yours faithfully,

R. H. NEAGUS, A.C.A.

*Westcliff-on-Sea*

# Readers' Points and Queries

**Section 54 of the Companies Act**

*Reader's Query.*—All the issued shares in an exempt private property company are held by A and B. Shareholder B wishes to be bought out by A, and it is proposed that the necessary finance be provided by the sale of certain properties and the lending of the proceeds to A.

Would such an arrangement be contrary to the provisions of Section 54 of the Companies Act, 1948?

If so, is there any practicable alternative means of achieving the desired result which does not "directly or indirectly" contravene the Section? To vote the required amount of remuneration to A would, for more than one reason, be impracticable.

*Reply.—There is no doubt in the legal profession as to the precise effect of Section 54 of the Companies Act, 1948, and the Section is the subject of several recommendations to the Jenkins Committee. The proposed arrangement would, it is thought, be contrary to the Section, notwithstanding the provisions of Section 190 (1) (a). On a strict view, in addition to the penalty provided by Section 54 itself, proceedings could be taken on behalf of the company against the directors for breach of trust or, when the company is wound up, for misfeasance (see Section 333). As the company is an exempt private company and there are only two shareholders at present, the risks may not be great, particularly as any security given in breach of the Section is not invalidated thereby* (Victor Battery Co., Ltd. *v.* Curry's, Ltd. *[1946] Ch. 242). In fact, the memorandum of the Law Society of Scotland to the Jenkins Committee states that there are no reported cases of proceedings having been taken under the Section and that no information is available regarding any investigation which may have been carried out by the Board of Trade. On the other hand, the report of Mr. Neville Faulks,* Q.C., *into the affairs of H. Jasper Ltd. draws attention to the widespread disregard of Section 54, and it may be that the penalty of £100 will be substantially increased at some future date.*

*A possible way of bringing a transaction on the lines of that proposed within proviso (c) to Section 54 might be for A's wife to undertake* bona fide *employment with the company and for her to retain the beneficial ownership of B's shares purchased with the assistance of the company. She could then repay the loan from the company, over a period of time, out of earnings and dividends. After an appropriate lapse of time, it might even be that she could transfer the shares to A.*

**Exempt Private Company**

*Reader's Query.*—In the December, 1960, issue of ACCOUNTANCY on page 688 reference was made to the decision of the Court in *Re Prenn's Settlement. Truvox Engineering Co. Ltd.* v. *Board of Trade.*

As you intimated, many exempt private companies have probably lost their exempt status as a result of this case, but I wish to enquire whether it is the intention of the Registrar of Companies to apply this decision to all similar cases and, if so, whether there is any simple action that can be taken to retain the exempt status. It may well be that it is not the intention of the Registrar to press this point except in certain cases.

*Reply.—The decision of Cross, J., in* Re Prenn's Settlement. Truvox Engineering Co. Ltd. *v.* Board of Trade, *[1960] 3 All E.R. 564, has now been affirmed by Court of Appeal, [1961] 1 All E.R. 833, so that the position has, if anything, been strengthened against the exempt private company. The decision only applies, however, to a settlement of cash (usually made to save stamp duty) and does not affect a settlement of shares in the exempt company which are owned by the settlor at the time when the settlement is executed. In other words, the shares themselves must be settled, and not cash which is used to purchase the shares. If this is done, it is the practice of the Board of Trade to regard a subsequent issue of bonus shares by the exempt company to the trustees of the settlement (along with other shareholders) as not affecting the status of the company, on the ground that the bonus shares can fairly be said to be the fruit of the settled property.*

*In* Prenn's *case there was a large bonus element in the shares purchased for cash by the trustees, but this does not affect the principle of the decision. Government departments are often willing to express an unofficial opinion on an actual case; it is suggested, therefore, that the facts of the case in question should be submitted to the Board of Trade for its views before any action is taken. It is not to be overlooked that exempt status can also be lost in other ways (see, for example,* Qualter, Hall & Co. Ltd. *v.* Board of Trade *[1961] 1 All E.R. 210).*

# Machines in Business

**Banking on EMIDEC**

The Right Honourable Reginald Bevins, M.P., the Postmaster General, opened Barclays Bank No. 1 Computer Centre on July 4. The Centre, which is located in Drummond Street, Euston, and employs an EMIDEC 1100 Computer, will be used to undertake the centralised bookkeeping of 40,000 current accounts for twelve of the bank's West End branches. The proposed system of operation, which uses information transmitted by teleprinter, is thought to be the first of its kind in any bank in the world. Main aims of the installation are the lessening of staffing difficulties and the avoidance of overcrowding which would otherwise arise as a result of the ever-increasing volume of work.

The building, the first of its type in Barclays, was wholly designed by the bank's own Premises Department, the architect being Mr. D. L. G. Shuldham, the bank's Assistant Staff Architect. The efficient housing of the central bookkeeping equipment was obviously the primary aim; but, as this is to be the first of several computer centres, provision had to be made for the instruction of bank staff in the new methods, as well as for the reception of parties from interested organisations at home and abroad. The design thus strikes one as extremely spacious. Part of this space is, however, already earmarked for Barclays No. 2 Computer.

**City of London Computer Centre**

Stockbrokers and other City businessmen will soon be able to use a computer service bureau dealing exclusively with their kind of work. The first in Britain to provide this specialised service, the new bureau is being opened in September by *N.C.R. Electronics*, a company which already runs commercial data processing centres at Marylebone and Neasden.

Equipment initially will comprise a National-Elliott 803 with magnetic film file, but it is planned to augment this later with a new N.C.R. 315 system. Among the jobs which the bureau will perform for clients are the evaluation and analysis of portfolios and the calculation of stock price statistics for investment analysts. Working to very tight schedules, the computer will provide statistical information which either could not be produced economically by conventional methods or could not be prepared in time to be of any use.

Strict security arrangements are being made to preserve the highly confidential information passing through the computer.

**The Productograph**

Demonstrated this month by Adrema Ltd. at its own works in London was the *Productograph*, claimed to be "the most advanced system for the recording and writing of full production data from individual operating units in production processes." Information gained from individual machine tools, packaging machinery, power presses, conveyor systems, steam, electrical or internal combustion engines, looms, continuous production processes such as metal strip, plastic film and paper making, food manufacturing machinery, and so on, is converted into an electrical signal which is fed to the Productograph control centre along wires. The centre, which may deal with 20, 40, 60, 100 or even 200 sources of information, consists of several units. There are: (i) linear counters for the visual production recording of each item of equipment in the factory; (ii) electrical counters which record the quantity of product produced and the production time consumed; (iii) the integrator for group control, which indicates by means of a light system the productive and idle times of each plant unit; (iv) the machine diagram recorder, which records continuously the production cycles of up to twenty machines per recording unit on twenty double tracks on inkless, waxed paper; (v) the high-speed recorder for the extended work analysis of any particular production unit; (vi) the duplex and light signalling installation for control lights at plant stations and for two-way communication between the operator and control; and (vii) the tape recording system for the recording of instructions and advice, explanations, etc., from night-shift operators when the Productograph may be left unattended.

The Productograph is a German machine, the British marketing and assembly rights of which have been acquired by Adrema Ltd. from the German concern, Siemens-Halske. Two hundred are already working in Germany, where it is claimed the system finds favour with the worker, who rapidly sees his earnings rise with the increased efficiency brought about by the machine. The Productograph in effect asks the worker every time production stops why it has stopped. Any defect beyond his control is immediately seen to. If he has a machine breakdown, for instance, he presses the appropriate button on the telecommunication system

attached to his machine. An indicator light on the Productograph shows that his machine has stopped production and why. The controller is thus able immediately to send a mechanic to rectify the defect. If a worker runs out of material, he may indicate this by pressing another button, as a result of which the controller will immediately contact the stores to ensure that the hold-up is as short as possible.

Whilst accountants will no doubt be interested in the cost-saving potentialities of the device, it seems possible that we have here the beginnings of a fully integrated production control/stock control/timekeeping/payroll and accounting system—a system which would entirely change the face of routine accounting.

**I.C.T. Computer for the A.E.U.**

The Amalgamated Engineering Union has ordered an I.C.T. Type 555 electronic computer and ancillary equipment. With over a million members in 2,400 branches, the A.E.U. is one of the biggest unions in the country and is the first to adopt this form of mechanisation. The equipment will be used for the centralisation of accounting for members' contributions and for issuing quarterly members' statements. Sickness and death benefits and other payments are also planned to come within the scope of the new system.

**National-Elliott 803 Improved**

*National-Elliott* 803 computers now being delivered incorporate a number of important improvements over earlier models. Operating speeds have been increased considerably, and a battery power supply has been built into the system to cushion the computer against the effects of fluctuations in mains voltage and power failures. An automatic temperature control enables the machine to operate efficiently in ambient temperatures between 50 degrees F. and 110 degrees F., a feature which is of particular value in the light of the orders now being received from other parts of the world.

The latest innovation is a paper-tape station designed to group together all paper-tape input and output devices in a single unit, so speeding up the handling of the perforated paper-tape and making the operation of the computer easier than before. The control desk, the paper-tape station and the magnetic film storage units can, if required, be installed in one room, while the computer itself is housed out of the way in another.

**LEO to the Rescue**

Pay bandits struck at the Ford Motor Company's Dagenham works on June 22, when pay packets for 700 night shift foundry employees were stolen. As soon as news of the raid came through, Mr. E. Knight, manager of the computer operating department, realised that a new payroll would have to be prepared. The necessary data were fed into the newly installed LEO electronic computer and a duplicate payroll was produced within the hour. The men thus received their wages only a few hours after the normal paying time—thanks to LEO.

**Computer Studies the Hit Parade**

The EMIDEC 1100 computer installed by *EMI Electronics Ltd.* in its West End offices will have three main tasks. Its primary function will be the operation of a fully integrated data processing system for EMI Records Ltd., including sales invoicing and the production of monthly statements, sales statistics, stock control, production control and the computation of artistes' royalties.

Nearly 3,000 sales invoices are prepared daily, covering any of 24,000 different titles, and as public demand for popular records fluctuates so greatly the daily sales and stock figures are of great assistance in maintaining the minimum stock levels.

EMI's group payroll for 14,000 employees will also be prepared by the computer.

The machine's second main task will be to test programmes prepared for use on computers to be installed for other users, and to provide a training ground for EMI staff.

Thirdly, computing time will be sold to other companies able to make occasional use of the facilities provided by automatic data processing but not having a sufficient volume of work to justify outright purchase of a computer.

*Burroughs Adding Machine Ltd.* announces a change of business name to *Burroughs Machines Ltd.* The organisation is this year celebrating the 75th anniversary of the founding by William Burroughs of the American *Arithmometer Company* in 1886. Products now include advanced automatic data processing systems, electronic computers and magnetic ink character recognition equipment for reading, sorting and automatically processing accounting information.

**Record Non-Stop Computer Run**

News has been received from Louisiana that the *Elliott* 803 computer installed there in a Gulf States Utilities Power Station has completed 4,200 hours of continuous operation without a single failure of any sort. This is believed to be the longest continuous operation of a computer ever recorded. It demonstrates the very high standards of reliability demanded by applications of this type. The 803 computer in question is the data processing unit of a Panellit 609 Information and Computing System. A similar Panellit 609 system, exhibited at the British Trade Fair in Moscow, has been purchased by the Committee for Complex Automation in the Chemical Industry for installation in a major chemical plant in the Soviet Union.

Two Panellit 609 systems are in operation in the United Kingdom. One is at the Nuclear Power Station at Calder Hall and the other in the Stocksbridge works of Samuel Fox & Co., controlling the steel billet cut-up line. The latter is the first application of a computer for the on-line control of an industrial process in the United Kingdom.

**A.E.I. Agreement with Facit Electronics**

Associated Electrical Industries Ltd. has made an agreement with Facit Electronics AB of Sweden as a result of which A.E.I. has become the sole agent in the United Kingdom and Commonwealth for the Facit Carousel memory, high speed tape punch and high speed reader.

Conventional magnetic tape memory devices using large single reels of tape have access times which vary from 0 to 6 minutes depending on the length of tape and distance of the information from the start of the tape. The Carousel memory uses a number of tape reels, each 28 feet in length, stored on a wheel which rotates round a central spindle. Any number of tapes up to sixty-four can be stored and consulted independently, thus reducing the average access time to 1.9 seconds. When full, the Carousel memory contains more than three million alpha-numerical characters or more than five million decimal digits.

The Facit high-speed tape punch is transistorised and designed to accept 5, 6, 7 or 8 channel paper tapes. Moving parts have been kept to a minimum in order to ensure more reliable operation and easier servicing. The Facit high-speed tape reader is also fully transistorised and will read tapes of 5, 6, 7 or 8 channels by means of a dielectric reading unit which ensures against ageing components, dust and light.

# Legal Notes

**Executorship Law and Trusts—**
**Validity of Resettlement Effected by Power of Advancement**

Trustees of a will held certain funds on protective trusts for adult beneficiaries for life and thereafter upon trusts for their issue. The life interests were subject to a power of advancement, to be exercised by the trustees (with the consent of the adult beneficiary concerned), imported into the will by virtue of Section 32 of the Trustee Act, 1925. That Section gave the trustees power at any time or times to pay or apply any capital money subject to the trust, for the advancement or benefit, in such manner as they might, in their absolute discretion, think fit, of any person entitled to the capital of the trust property, provided that the money so paid or applied for the advancement or benefit of any person should not exceed altogether in amount one half of the presumptive or vested share or interest of that person in the trust property. The Section further provided that the power should not be exercised so as to prejudice a prior life or other interest unless the person so interested had reached majority and consented in writing. In these circumstances the trustees came to the Court to discover whether this power of advancement extended as far as enabling them to pay, with the consent of her father (one of the adult beneficiaries with a life interest) a sum representing a proportion of an infant's prospective share of the trust property to the trustees of a separate settlement executed by her grandfather for her benefit, such sum to be held upon the trusts of that separate settlement. The trusts of the separate settlement were to apply the whole or any part of the income thereof for the maintenance, education or benefit of the infant, and to accumulate any residue until she attained 21 years; from 21 to 30 years the income was to be paid to her, and at 30 the fund was to be hers absolutely; there were provisions for the benefit of any children she might leave if she died under the age of 30.

The case, **In re Pilkington's Will Trusts** [1961] 2 W.L.R. 776, came before the Court of Appeal. The Court held that the payment the trustees of the will proposed was not a valid exercise of their power of advancement. It was a fatal objection that the payment had no reference to the actual current needs of the infant as they stood at the time of the proposed transfer of funds: it was rather in effect a resettlement of funds in which she had a contingent interest on trusts different from those in the will and not contemplated thereby. It did not hold, however, that an exercise of such a power, provided it related to the real circumstances and needs of the object, would be invalid because it involved an effective resettlement—indeed there have been cases along these lines—nor because such a resettlement might benefit persons who could not receive a benefit under the terms of the will.

Upjohn, L.J., alone found it necessary to deal with the question of the application of the rule against perpetuities. He held that while in the case of an advance to an adult who could himself effect any desired resettlement the rule would not apply, yet here the resettlement arose by virtue of an exercise by the trustees of the will of the power given them by Section 32, which exercise, as it was of a special power, must for the purposes of the rule be written into the instrument creating the power, that is, the will, so that the rule must apply. As a result of the need to apply the rule he held that some at least of the trusts in the resettlement proposed would be bad.

**Executorship Law and Trusts—**
**Validity of a Name and Arms Clause**

For nearly fifteen years after the second world war it seemed that name and arms clauses, that is, clauses requiring beneficiaries under a will to adopt the name and arms of the testator or else forfeit their inheritance, were on the way out, and could often be disregarded with impunity. By now, however, the tide has changed, and **In re Howard's Will Trusts** [1961] 2 W.L.R. 821, where the testator sought to perpetuate the ancient name and famous arms of Howard, with their honourable augmentation won at Flodden, shows that such clauses can be effectively drafted, and that the attitude of judges towards them is changing. The clause in question required those becoming entitled under the will to "take use and bear . . . in all deeds and writings . . . and upon all occasions the surname of Howard," with a further requirement in respect of the arms. Failure to comply within certain time limits was to result in forfeiture of the interest of the person required to comply. This clause was attached on two grounds, namely, that it was void for uncertainty on the one hand and that it conflicted with public policy on the other. Wilberforce, J., could not accept that the clause was uncertain. He regarded it carefully, even critically, but did not think he should consider it with hostility. He found that the words used were sufficiently precise and distinct to enable the Court and the parties to see from the beginning what it was that must be done to avoid or to bring about a termination of the relevant interest. On the question of public policy, had the matter been untouched by authority, he would have held the clause valid in its entirety. But there is authority to the effect that such clauses are void in so far as they affect married women or their husbands, and the Judge felt obliged to follow authority so far as it goes, but no further.

**Miscellaneous—**
**No Change at a Parking Meter**

In **Strong v. Dawtry** [1961] 1 W.L.R. 841 a motorist had parked his motor car in a parking bay and found that he had no change for the meter. He spent about two minutes away from the bay, and then returned with change and made the payment prescribed. He found a traffic warden at the meter on his return, who reported him, and he was convicted by a magistrate of failing to pay the initial charge. The relevant Statutory Instrument provides that the initial charge "shall be payable on the leaving of the vehicle in the parking place by the insertion in a parking meter of a coin . . ." The motorist appealed to the Divisional Court. He abandoned a contention which had not appealed to the magistrate that a reasonable time must be imported and allowed between the time when the motorist leaves his driving seat and the time when the coin is inserted, and that such reasonable time must be governed by all the circumstances, including whether he has the necessary change in his pocket. Instead, it was argued that when he went for change he had not left his motor car within the meaning of the words of the Instrument, because a motorist has not left a vehicle until he has done all he intends to do as part of the operation of parking. However, it was held that the words "payable on the leaving of the vehicle in the parking place" clearly denoted the placing or depositing of the motor car in the parking bay. Whether the motorist leaves the vehicle in the sense that he gets out of the driving seat, or whether he stays there, cannot affect the matter at all. Accordingly the motorist was rightly convicted.

# An Accountant's Guide to Recent Law

**ACTS OF PARLIAMENT**
Industrial and Provident Societies Act, 1961. To raise limit on interest in shares of a society which any one member may hold and to enable certain societies to make advances to members without security.

**STATUTORY INSTRUMENTS**
No. 928. Exchange Control (Authorised Dealers and Depositaries) (Amendment) (No. 2) Order. Further amending list of dealers.
No. 985. Double Taxation Relief (Taxes on Income) (U.S.A.) (No. 3) Regulations. Relieving paying agents in this country of obligation to deduct U.S. withholding tax from dividends paid to persons in certain overseas territories.
No. 986. Charities (Exception of Religious Charities from Registration) Regulations. Excepting until January 1, 1963, religious charities, including those for relief of ministers and their families.
No. 987 (C.7). Charities (Registration) (Commencement No. 1) Order. Appointing June 22, 1961, as date in relation to charities for benefit of Bedfordshire or Surrey, including Croydon.
No. 1040. Treasury (Loans to Local Authorities) (Interest) Minute. Increasing rate of interest.
No. 1041. Treasury (Loans to persons other than Local Authorities) Minute. Increasing rate of interest.
No. 1044. Charities (Exception of certain charities for Boy Scouts and Girl Guides from Registration) Regulations. Excepting from obligation to register funds not representing permanent endowments which are being accumulated and which produce an income of more than £15 a year.
No. 1084. Rules of the Supreme Court (No. 1). Amending rules as to appeal from county court and as to execution of powers of attorney abroad.

**DECISIONS OF THE COURTS**
**Administration of Estates**
Death of testator on morning of quarter day. Whether rents payable in advance and in arrear were capital or income of residuary estate.
*Re Aspinall deceased.* (2 All E.R. 751.)
Right of unsatisfied creditor to follow assets of estate into hands of devisees or legatees was equitable right which might be defeated by, *inter alia*, a transfer from devisee to someone who took in consideration of marriage.
*Salih* v. *Atchi* (2 W.L.R. 969.)

**Charity**
Effect of trust was to create a disposition of trust income in favour of grantor's family. This trust lacked necessary element of being for a section of the community, and was not charitable.
*Caffoor* v. *Commissioner of Income Tax, Colombo.* (2 All E.R. 436.)

**Company**
Petitioning creditor to pay costs of company and opposing creditors, as he had acted unreasonably.
*Re A. E. Hayter & Sons (Portchester) Ltd.* (2 All E.R. 676.)
But not where he had acted reasonably.
*Re Sklan Ltd.* (2 All E.R. 680.)
Private company articles restricting transfer of shares to members. Position and duty of executor member.
*Roberts* v. *Letter "T" Estates Ltd.* (3 W.L.R. 176.)
Accounts and information withheld from contributory, who therefore presented winding up petition. Thereupon accounts were given at once and winding up was no longer sought. Company ordered to pay costs even though petition did not allege assets available.
*In re Newman & Howard Ltd.* (3 W.L.R. 192.)

**Contract**
Company entitled to rectification of contract executed by plaintiff under mistaken belief that particular term included and by defendant knowing of this mistake.
*A. Roberts & Co. Ltd.* v. *Leicestershire County Council.* (2 W.L.R. 1000.)
Exceptions clause purporting to exempt dock owner from liability was wide enough to cover negligence by servants.
*The Ballyalton.* (1 W.L.R. 929.)

**Husband and Wife**
Hire purchase of car by husband for wife and registration in her name held to be a purely domestic arrangement not intended to create legal relationships, and accordingly gave no rights in car to wife.
*Spellman* v. *Spellman* (1 W.L.R. 921.)
Maintenance deed executed between husband and wife held a marriage settlement which the Court had power to vary after the parties had been divorced.
*Y.* v. *Y.* (T.N., June 13.)

**Insurance**
Subject to Marine Insurance Act, 1906, a term was to be implied in marine or fire policies that assured should not recover from insurer more than the loss sustained, but, if assured recovered from third party more than loss, the insurer's rights were limited to recovering from assured the sum paid by insurer to assured.
*Yorkshire Insurance Co. Ltd.* v. *Nisbet Shipping Co. Ltd.* (2 W.L.R. 1043.)

**Land Charge**
Inaccurate certificate of search issued by town clerk was conclusive in favour of plaintiff, who was absolved from liability to pay compensation notified later, and his right to develop could not have been defeated by non-payment.
*Stock* v. *Wanstead and Woodford Borough Council.* (2 W.L.R. 868.)

**Restrictive Covenant**
Air Ministry was purchaser for value who took with notice of covenant and therefore, notwithstanding that it had taken land under compulsory powers, it took subject to the covenant.
*Marten* v. *Flight Refuelling Ltd.* (2 W.L.R. 1018.)

**Restrictive Practices**
Costs awarded to Registrar on account of unreasonable delay in delivery of pleadings. At later date order by consent was made that restrictions were contrary to public interest.
*In re Wire Nail Manufacturers Agreement.* (1 W.L.R. 914.)

**Vendor and Purchaser**
Signed contract included all conditions agreed except date of completion. Solicitor acting for both parties obtained specific confirmation of date and endorsed copy letter. This constituted memo as required by Section 40 of Law of Property Act, 1925, binding on purchaser.
*Gavaghan* v. *Edwards* (2 W.L.R. 948.)

**Will**
Testator's signature at top of will on single sheet of paper attested, but not his signature at bottom of sheet. Held not validly executed.
*In Estate of Bercovitz deceased.* (1 W.L.R. 892.)
"750 ordinary shares"—at date of will and of death testator was entitled to 7,500 shares in view of rights issue. Held misdescription—will effective to pass only 750 shares.
*In re Tetsall* (1 W.L.R. 938.)
In will dated 1936 of testator who died in 1944, direction postponing vesting of capital and income of residuary estate until expiration of twenty years after death of survivor of issue living at death of Queen Victoria not void for uncertainty.
*In re Warren's Will Trusts.* (T.N., June 2.)
Name and arms clause held not binding on tenant in tail in possession of settled property who was about to marry.
*In re Delme-Radcliffe.* (T.N., June 7.)
Contents of seaman's privileged will proved by oral evidence and admitted to probate.
*In the Estate of Wilson deceased.* (105 S.J. 531.)

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ABBREVIATIONS USED
All E.R.—The All England Reports.
S.J.—*Solicitors' Journal.*
T.N.—*The Times* Newspaper.
W.L.R.—*The Weekly Law Reports.*
*Note:* Taxation cases and articles excluded.

# Publications

**History of the Society of Incorporated Accountants, 1885-1957.** By A. A. Garrett, M.A., Secretary 1919-1949. Pp. xviii+360. (*Oxford University Press:* £1 4s.)

THE TITLE OF this book gives but an indication of part of its contents, which relate to the events affecting our profession over the past seventy years; in fact, it goes a long way towards filling the gap in the written record. Previously, of necessity we have had recourse to such books as *The History of Accountants and Accounting* by Richard Brown (1905), *A History of the Chartered Accountants of Scotland* (1954) and the weekly and monthly publications which many of us have had bound for ease of reference. Now in one volume we are regaled not only with the history of the Society and all that that implies, but with references to the circumstances and problems of the times which provided the opportunities for development, re-orientation of thought and the adaptation of principles to meet and enable the profession to play its part in the changing pattern of commerce, political thinking and the economic and financial problems arising from three major wars. We are told also of those who from time to time played the leading roles—not only the leaders of our profession, were they Chartered, Incorporated or otherwise, but of those major characters who dominated or influenced events and thinking at the time.

No one living person equals the author in wealth of knowledge at first hand to write such a book: no one loved the Society more than he, no one did more (and in such a charming and unassuming manner) by his wisdom and advice to many Presidents and the members of Council to further the interests of the Society, its members, and indeed the profession. To him we owe a great debt of gratitude for the painstaking task he regarded as a labour of love, for writing this book, for putting in such a readable form all those things and references to those persons who did so much in the formulation of many of the accounting principles we now respect, who rendered great service to the nation in so many fields and who fashioned the profession by their example and precepts with its high ethical standards.

The story unfolds with the inception of the Society in 1885. It is most interesting to note that its demise might well have occurred in 1897, and not in 1957, as it was in that earlier year that the Chartered Accountants' Bill was sponsored by representatives of the English Institute and the Society. In effect the Bill provided, inter alia, for the fusion of the Society with the Institute through the election to the Institute of members of the Society by defined categories. It is not surprising that within the Society there was serious opposition from members who were Corporate (Municipal) Treasurers: they objected to becoming Honorary Fellows and Honorary Associates of the Institute and not F.C.A.'s or A.C.A.'s. How history repeats itself! The proposals in the Bill were, however, rejected by the Institute and sixty years were to elapse before somewhat similar proposals on fusion were to be made. It is worth remarking also that in 1893 the Society had said to the Institute, "You must take all our members or none." The same was said in 1956, but the Institute's representatives made it abundantly clear, as was said at the Society's meeting in the Royal Festival Hall, that membership of the Institute for all members of the Society with equal rights with its own members was not acceptable, and if the Society was not prepared to proceed on the basis ultimately adopted the scheme would founder.

All will have long since realised the difficult task of the Council and each of its individual members at that time. They did all possible; they took the broad and long view—is there any doubt that they were right? The story of the negotiations, the scheme, the meetings, the speakers and their contributions is faithfully told, and we would do well to ponder from time to time on all that was done and not done. It will be for those who come after to judge our actions, wisdom and judgment.

Before leaving this fascinating part of our history, let us look at the subject of registration of the profession. The various moves over the years are told, commencing again with the Bill of 1897. The subject was broached from time to time in an informal manner, but in 1906 discussions started with a view to the preparation of a Registration Bill. Observe here that as the Bill (Professional Accountants Bill) was drafted it would be open for any municipal accountant to give notice that he intended to practise and he would at once have been entitled to have his name entered in the register as a Professional Accountant within the terms of the Bill. The author tells us something of what happened, on the stage and behind the scenes, the result being that the Bill was not proceeded with. The subject of registration was again raised between the official bodies in 1923; it had been raised within the District Societies from time to time, but it was in 1930 that a Departmental Committee was set up under Viscount Goschen "to consider and report whether it is desirable to restrict the practice of the profession of accountancy to persons whose names would be inscribed in a register established by law, and if so to report on the method by which such register should be established and controlled."

We are given a most interesting account of the evidence and of those who gave it. Then follows an objective summary of the Report made in 1930, with its final conclusion: "On the evidence before us we are unanimously of the opinion that it is not desirable to restrict the practice of the profession of accountancy to persons whose names would be inscribed in a register established by law."

Then on to the discussions on coordination which took place in the 1940's, the basis being that while all the bodies concerned—the three Institutes, the Society and the Association—should retain their own independent existence, co-ordination of the profession should include legislation to provide for the licensing of accountants in public practice. Again a Bill was drafted and we are told of the problems involved and the reasons why in 1950 the proposals were dropped. Objective thinkers will ponder long over all the book tells us on this most important matter, and wonder what will be the next step and when it will be taken.

Another subject still in our minds and dealt with throughout the book is the form and standard of entry into the profession. We no longer hear of byelaw candidates and seldom of premiums paid for articles—but the development of the Society over the years was strengthened and the profession enriched as a result of the more liberal policy on entry adopted by the Society. That integration took place in 1957 and that its success

has been so apparent in later years is evidence of the wisdom of that policy.

How this came about and how financial officers in municipal affairs were admitted as members is told in no boastful manner, but readers will recognise the guiding hand of the author in some of the decisions taken.

Another important feature of the development of the Society was its policy in regard to persons trained overseas in the profession to a standard equal to that adopted at home.

How fascinating it is to read of Branches being established in Australia, New Zealand, South Africa and India—that in Victoria, Australia, dating from 1886—and of some of the important persons who played their part in making the Society pre-eminent in its worldwide representation and affiliations. With this story, too, we come nearer home to Scotland and Ireland — and to the District Societies up and down the land.

In the field of education we are reminded of the co-operation of the Society with the universities and the development of the Summer Courses. What a brainwave that was, and how much benefit and pleasure were afforded to those who were privileged to attend them! Many will recall them—and some of us the first, held in 1934 at Gonville and Caius College, Cambridge. The picture on page 198 of the book will bring back nostalgic memories.

The representation on Council of members other than those in practice is dealt with, and the admittance of our first woman member and the first woman member to join the Council. We know, but like to be reminded, also of the contribution made by members in municipal service, those in industry and those, like the author, who honoured the Society by accepting invitations to become Honorary Members.

The Society was not backward in changing its examination syllabus to meet changes in techniques and the development in financial administration. We recall papers set in the 1920's on costing, statistics and economics and the increasing awareness of the importance of management accounting.

With education there must be research, and the efforts and achievements of the Society and some of its members in this field were outstanding.

We are told of the setting up of the Research Committee in 1935, its work and the establishment in 1952 of the Stamp-Martin Chair of Accounting. We are reminded too of the brilliant work of its first occupant and the scholarly approach he made to the principles involved in accounting and in appreciating the economic facets of some of our work. Earlier we read what Sir Josiah Stamp said of and to accountants in 1921; the following extract will suffice to indicate the pungency of his criticism: "I make this serious indictment of accountants. Scientific accountancy has now been developing for some fifty years, but I cannot trace that it has yet made a single substantial contribution to economic science over its own field of the analysis of the results of industry, although it has practically a monopoly grip of the required data." There is a lot more to learn on this subject from the book, and in passing one notes how many years went by before the establishment of the Stamp-Martin Chair and the later study of "inter-firm comparisons."

The history of the Society is faithfully recorded over the years in its official journal—*The Incorporated Accountants' Journal*, founded in 1889 and later named ACCOUNTANCY. Editors and contributors over the years ensured that its standard of matter was second to none. The seventeen page illustrations contained in the book include one of the first page of the first issue as a monthly publication in 1895; observe therein reference to the Building Societies Act, 1894, and the Registrar's comments as to what constituted "publicly carrying on the business of an accountant."

We all know how much was owed to the three Secretaries with whom the Society was blessed: the story of the Society is the story of its servants, and how fortunate it was from top to bottom, from President to the humblest member of the staff.

No review of this book would be complete without reference to Sir James Martin, who over many years did so much for the Society. His views and the part he played in the development of the Society are recorded by his successor as Secretary—by one who knew him intimately and was well able to tell of his great works.

This is a book which many will want to read and treasure; it will recall to many memories of happy occasions and associations; it will give us pride in our achievements and a sense of humility in reading of the great qualities of those who did so much for the Society in its early years. Last, and by no means least, it will leave with us a deep sense of gratitude not only to Alex Garrett for all that he did and has now done—but also to his dear wife, who aided and abetted him in all his good works.

Mr. S. J. Pears, as President of the English Institute, has added his tribute to the author in the final paragraph of the Foreword he wrote for the book. "Mr. Garrett has undertaken a monumental task and after his long period as Secretary of the Society it must often have been heartbreaking work. He can, however, rightly feel that he has now made one further great contribution to the Society in putting its history on record. He has come out of retirement to perform a service which I am sure he could never have contemplated at the time when he ceased to be Secretary of the Society. He has done it well."

All who read this book will agree.

R.E.Y.

**Successful Managerial Control by Ratio-Analysis.** By Spencer A. Tucker. Pp. xxvii+434. (*McGraw-Hill:* 85s. 6d.)

MOST ACCOUNTING AND management accounting textbooks say something about accounting ratios, but even the more specialised works tend to be superficial. Accounting ratios are simple enough to compute but are not so easy to interpret accurately. A falling current ratio (that is the ratio which current assets bear to current liabilities) is, for instance, often a danger signal foretelling times ahead when the liquid position will be difficult. On the other hand, the current ratio will also fall if cash is wisely employed in the purchase of new facilities which are urgently needed and which can be shown to be capable of producing high profits for many years to come. Small wonder that the readers of many works on accounting ratios feel unsure of their ability to employ them correctly. This is the book for which they have been searching.

Without doubt Mr. Tucker's is the fullest account yet available. Some may even consider that he goes too far in developing 429 ratios; yet no one could accuse him of having produced a purely theoretical work. This is a practical book. The curves appearing on the numerous charts are derived from actual conditions at plants owned by his clients, and the use of multiple scales enables him not only to trace typical patterns but to demonstrate the inter-relationships which exist between one ratio and another.

In the past there has been a tendency to think only in terms of gross profit and net profit to turnover, stock turnover and various balance sheet ratios, but a large part of this book is devoted to ratios connected with production and sales and with the integration of the activities of production, sales and capital.

His aim throughout, writes the author, and indeed within the entire marginal control concept, is not to make accountants out of managers and executives, but to take the mystery out of financial statements and to focus attention on those areas of finance which ordinarily receive only casual attention, or which have to wait until the auditors come in. Mr. Tucker has succeeded in writing a book which, despite its length and the weight of its content, is difficult to put down, and one which is sure to be accepted as a leading authority on accounting ratios for many years to come.

G.A.H.

## Books Received

**Kent or Romney Marsh Sheep.** A Study of a Longwool Breed in Competition. By G. Allanson. Pp. xii+76. (Wye College, Nr. Ashford, Kent: 5s. post free from the Secretary.)

**Staff in Organization.** By Ernest Dale, PH.D., and Lyndall F. Urwick, O.B.E., M.C., M.A. Pp. vii+241. (*McGraw-Hill:* 46s. 6d.)

**The All England Law Reports:** Index and Noter-Up, 1960.

## Winter School in Rhodesia

The Salisbury District Society of the Rhodesia Society of Accountants recently held its first Winter School at Fort Victoria, which was chosen as roughly equidistant from Salisbury, Bulawayo and Umtali. The arrangements were modelled on those of the Summer Courses of The Institute of Chartered Accountants in England and Wales. Two papers were presented by practising members of the Rhodesia Society of Accountants: "The Significance of Auditors' Reports on Companies' Accounts" by Mr. R. G. Wuth, C.A.(S.R.), and "Some Aspects of Taxation in the Federation" by Mr. S. A. Rowe, C.A.(S.R.), both being followed by discussions and study groups before the summing up by the speakers. On the last day of the week-end a Members' Forum, consisting of a panel of three and a Chairman, gave rise to some very interesting questions and answers.

The School was attended by forty-nine members—one of whom had travelled 700 miles to be present—and was acclaimed an outstanding success.

A photograph appears below.

# The Student's Columns

## THE INTERPRETATION OF ACCOUNTS—I

MOST TEXTBOOKS ON accounting suggest that the points to which a person is likely to direct his attention when examining a set of accounts depend upon his relationship to the business concerned. The viewpoint of a creditor or prospective creditor, they consider, will naturally be different from that of a shareholder or prospective shareholder, or banker, stockbroker or debenture-holder.

There is some truth in this. Yet it suggests to the uninitiated that the interpretation of accounts is a complex task. It is not. With minor exceptions, almost everyone who studies a set of accounts is interested in the same two factors:

(i) The continuance of the business; and

(ii) The trend of its profits.

So long as the business continues on a profitable basis, creditors and members alike will be happy. If it fails, or if profits fall, losses are likely to arise whether one is a lender, a creditor or an investor.

The two factors are, of course, related. A business soon ceases to exist if it becomes unprofitable. The cessation is not necessarily immediate, and much depends upon the faith of its owners in its prospects of recovery. But it will not continue an unprofitable existence indefinitely. Yet unprofitability is not the only thing that brings business

to a standstill. Unbalance between one type of asset and another, making the business unable to pay its way, is equally fatal. Even a profitable firm, if unable to turn to outside support, will fail if its cash resources are insufficient because it has tied up too much of its capital in stocks, debtors or fixed assets.

These two tests, together with an understanding of basic accounting principles and a little common sense, are all that is required to produce an intelligent assessment of a set of accounts. Admittedly, even an expert frequently needs to go behind the accounts in his search for confirmation of some particular point, but this does not affect the simplicity of the basic approach.

**Example**

*The summarised balance sheets of Quarter-Deck Ltd., a private limited company, at March 31, 1960, and March 31, 1961, are given below, together with certain other particulars.*

BALANCE SHEETS

| | 1960 | 1961 | | 1960 | 1961 |
|---|---|---|---|---|---|
| | £ | £ | | £ | £ |
| Issued share capital | 50,000 | 55,000 | Goodwill, at cost | 20,000 | 20,000 |
| General reserve | 14,000 | 20,000 | Freehold property, at cost | 6,000 | 6,000 |
| Profit and loss account | 23,620 | 13,560 | Plant and machinery | 25,100 | 35,600 |
| Income tax, 1960/61 | 3,870 | — | Investments, at cost (shares in A. Ltd.) | 12,000 | 5,000 |
| Trade creditors | 39,980 | 37,890 | Stocks: | | |
| Accrued expenses | 4,250 | 6,580 | Materials | 7,540 | 5,130 |
| Amount owing for new machinery | — | 5,000 | Work in progress | 5,960 | 4,120 |
| Bank overdraft (secured by mortgage on | | | Finished goods | 27,190 | 29,240 |
| freehold property) | 9,860 | 7,150 | Trade debtors | 41,790 | 40,090 |
| | £145,580 | £145,180 | | £145,580 | £145,180 |

| | Year to March 31 1960 | 1961 |
|---|---|---|
| | £ | £ |
| Sales | 425,000 | 356,900 |
| Overheads, including depreciation of plant and machinery, but excluding the items mentioned below | 91,256 | 81,259 |
| Interest on bank overdraft | 250 | 550 |
| Loss on sale of investments | nil | 4,100 |
| Net profit | 8,200 | |
| Net loss | | 4,060 |

*Details of the item plant and machinery are as follows:*

| | At March 31 1959 | 1960 | 1961 |
|---|---|---|---|
| | £ | £ | £ |
| Cost | 88,000 | 88,000 | 100,000 |
| Depreciation | 57,900 | 62,900 | 64,400 |
| | £30,100 | £25,100 | £35,600 |

*No plant or machinery was scrapped or sold during the two years to March 31, 1961.*

*At March 31, 1960, Quarter-Deck Ltd. held 6,000 shares in A Ltd. At March 31, 1961, 3,500 of these shares were sold. No dividends were paid or received during the two years ended March 31, 1961.*

*The market value of the freehold property at March 31, 1961, was £8,500.*

*The directors have asked their bank manager to increase the company's overdraft limit from £10,000 to £15,000.*

*You are required to consider the financial position and prospects of the company, drawing reasonable inferences from the figures and information given.*

**Solution**

Applying first the test of continuity: Is this business likely to keep on trading successfully? Throughout the period under review it existed on a hand-to-mouth basis. Despite the bank overdraft, it was necessary for the company's debtors to pay it before it in turn could pay its creditors. By March 31, 1961, the position had deteriorated so much that current liabilities (including accrued expenses) amounted to £49,470, whilst outstanding debtors were only £40,090 and it was impossible to satisfy all creditors out of receipts from debtors. Further cash is urgently required if the business is to survive. But since a request for additional funds brought about the accounts analysis in the first place, this finding is scarcely surprising.

The profits trend is obviously downwards—from a profit of £8,200 in 1959/60 to one of £40 (before deducting the loss on sale of investments) in 1960/61. The prime cause of this fall is not apparent from the accounts, though it is clear that sales dropped by about £70,000 per annum. Whether this reduction was caused by a general fall in demand, by competition, or by shortage of supply is not immediately apparent, though shortage of supply seems unlikely in view of the slight increase in the stock of finished goods. This is not significant in relation to turnover, however, so there can be no certainty that shortage of supply is not the trouble. Further enquiries ought to be made.

Obviously, a profit of only £40 cannot be regarded as a satisfactory return on capital and reserves of some £90,000. What are the hopes of returning to something more like the 1959/60 figure? In 1960/61 the company spent £12,000 on new plant and machinery (not to replace plant scrapped or sold but as an expansion of its capacity). This may reasonably be expected to show some result in 1961/62, assuming always that demand is not falling. But against any profit in this direction must be set the cost, in terms of interest, of borrowing further funds.

There are two other disturbing features. In 1959/60, depreciation of plant and machinery was £5,000 (on £88,000). The following year, when the cost of the plant and machinery employed had risen to £100,000, the depreciation charge was only £1,500. Apparently the 1960/61 charge for depreciation was reduced because of the fall of profits—a legally permissible, but imprudent, manoeuvre.

At March 31, 1961, 3,500 of the shares in A Ltd. were sold, resulting in a loss of £4,100. A further 2,500 shares appear in the balance sheet at their original cost, £5,000, whereas their market value is less than £2,100.

Banks are not keen to lend permanent capital. They prefer to keep their assets liquid. But this company is in need of permanent assistance. The present bank overdraft looks none too healthy, and upon the facts revealed few bankers would be willing to increase their risk by making a further advance.

* * *

In times of boom there is a great temptation to increase both production and stocks excessively. Any fall in sales, unless followed by immediate cuts in production, tends to aggravate the stock position and leave the business short of liquid resources. Stocks were frequently referred to as the graveyard of American business in the slump of the early 1930's. Overstocking is equally dangerous today.

A useful indicator of the stock position is the stock turnover ratio:

$$\frac{\text{Cost of sales}}{\text{Average stock}}$$

If the stock of finished goods maintained by a company rose steadily during the year 1960 from £10,000 to £14,000 (and was thus an average of £12,000) and the cost of goods sold was £60,000, the stock was turned over £60,000÷£12,000=5 times.

A falling stock turnover ratio frequently indicates either overstocking or falling sales, possibly both.

A moment's thought will make it clear that if working capital remains the same, an increase in one current asset can occur only at the expense of another (or by inflating creditors). Imagine a business whose normal balance sheet looks something like this:

| | £ | | £ | £ |
|---|---|---|---|---|
| Capital and reserves | 50,000 | Fixed assets | | 20,000 |
| Current liabilities | 12,000 | Current assets: | | |
| | | Stock | 18,000 | |
| | | Debtors | 14,000 | |
| | | Cash at bank | 10,000 | |
| | | | | 42,000 |
| | £62,000 | | | £62,000 |

A doubling of stocks can take place only if more credit is taken, or less given, or the bank balance reduced, by a total of £18,000.

The current ratio (current assets÷current liabilities) provides a useful indicator of changes in the working capital structure. A falling current ratio usually points to a growing shortage of working capital.

Somewhat similar is the liquid ratio (liquid assets÷current liabilities) used to indicate changes in the liquid position. Liquid assets are often defined for this purpose as trade debtors plus the balance at bank.

A falling liquid ratio is a sign that funds are getting shorter. The liquid ratio and current ratio may both fall together, indicating a general shortage of working capital, brought about perhaps by the purchase of fixed assets or the making of losses. Alternatively, the liquid ratio alone may fall. This would indicate a shift in the balance between one type of current asset and another—for example, overstocking at the expense of cash or debtors.

For many years past accountants have shown interest in two profit ratios, the ratio of gross profit to turnover and the ratio of net profit to turnover. Recently, the use of a further profit ratio, that of net profit to the capital employed, has developed. At a later stage it is hoped to discuss alternative approaches to this, but for the time being capital employed will be regarded as synonymous with capital plus reserves.

**Example**

*The following are summarised trading and profit and loss accounts of X Ltd. and Y Ltd. for the year 1960 and balance sheets at the end of that year.*

TRADING AND PROFIT AND LOSS ACCOUNTS

| | X LTD. £ | Y LTD. £ | | X LTD. £ | Y LTD. £ |
|---|---|---|---|---|---|
| Opening stock | 15,000 | 5,000 | Sales | 100,000 | 100,000 |
| Purchases | 80,000 | 86,000 | Closing stock | 25,000 | 11,000 |
| Gross profit | 30,000 | 20,000 | | | |
| | £125,000 | £111,000 | | £125,000 | £111,000 |
| Overhead expenses | 21,900 | 12,800 | Gross profit | 30,000 | 20,000 |
| Net profit | 8,100 | 7,200 | | | |
| | £30,000 | £20,000 | | £30,000 | £20,000 |

BALANCE SHEETS

| | X LTD. £ | Y LTD. £ | | X LTD. £ | Y LTD. £ |
|---|---|---|---|---|---|
| Share capital | 50,000 | 50,000 | Fixed assets | 60,000 | 49,000 |
| Profit and loss account | 40,000 | 10,000 | Current assets: Stocks | 25,000 | 11,000 |
| Current liabilities | 10,000 | 11,000 | Trade debtors | 10,000 | 7,500 |
| | | | Balance at bank | 5,000 | 3,500 |
| | £100,000 | £71,000 | | £100,000 | £71,000 |

*You are required to compute: (i) the current ratio; (ii) the liquid ratio; (iii) the rate of stock turnover; (iv) the*

*gross profit as a percentage of sales*; (*v*) *the net profit as a percentage of sales*; *and* (*vi*) *the net profit as a percentage of the capital employed at December 31, 1960; and then to describe briefly the conclusions to be drawn from a comparison of the above ratios and percentages, relating those of X Ltd. to those of Y Ltd.*

**Solution**

| | X LTD. | Y LTD. |
|---|---|---|
| Current ratio .. .. .. .. .. .. | 4 | 2 |
| Liquid ratio .. .. .. .. .. .. | 1.5 | 1 |
| Rate of stock turnover .. .. .. | 3.5 | 10 |
| Gross profit as a percentage of sales .. .. | 30 | 20 |
| Net profit as a percentage of sales .. .. | 8.1 | 7.2 |
| Net profit as a percentage of capital employed at December 31, 1960 .. .. .. | 9 | 12 |

Since it is not stated that the two businesses are engaged in the same trade in similar circumstances, it is doubtful whether detailed comparison of the ratios and percentages will serve any useful purpose. Certain broad differences can be pointed out, however. Y Ltd. turns over its stock almost three times as frequently as X Ltd. Its turnover is the same as that of X Ltd., but the gross profit earned is only two-thirds as great (20 per cent. instead of 30 per cent.). The overhead expenses of Y Ltd. are somewhat lower than those of X Ltd., being 12.8 per cent. of sales compared with 21.9 per cent. This leaves the net profit to sales percentage of Y Ltd. only 0.9 per cent. less than that of X Ltd. despite the much greater gross profit percentage of the latter.

Both the current and liquid ratios of Y Ltd. are lower than those of X Ltd. According to circumstances, they may even be dangerously low. The fixed assets of Y Ltd. are also rather lower than those of X Ltd. The capital employed by the former was therefore considerably less than that employed by X Ltd., so that the slightly smaller net profit of Y Ltd. in fact represents a rather higher return on the capital employed. Since neither the market value of the shares nor the risks involved are stated, it is impossible to assess which company provides the sounder investment.

# LOSS CLAIMS AND CAPITAL ALLOWANCES

THE RULES FOR computing profits for assessment to income tax do not permit any deduction for depreciation. A profit for income tax purposes is, therefore, overstated to that extent. This is put right in the case of most wasting assets, including industrial buildings, by allowing in the assessment the deduction of capital allowances. It is natural to ask whether a similar adjustment cannot be made in respect of a loss, which is understated because depreciation has not been charged. The answer is that capital allowances that would be deducted in an assessment can be added to the loss if such allowances have not already been used in an assessment.

The capital allowances for agricultural expenditure under Section 314 of the Income Tax Act, 1952, are not deductible in the assessment but must be set against agricultural income first. Any balance can be carried forward, or by election can be set against other income. They are not available to be added to a loss.

**Illustration (1)**

| | £ | £ |
|---|---|---|
| Profits, year ended March 31, 1960 .. | | 2,500 |
| Loss, year ended March 31, 1961 .. | | 600 |
| Assessment, 1960/61 .. .. .. | | 2,500 |
| Capital allowances: | | |
| 1960/61 .. .. .. .. .. .. | 1,000 | |
| Brought forward .. .. .. .. .. | 2,000 | |
| | | 3,000 |
| Assessment nil; capital allowances available | | 500 |

If the taxpayer has other income and wishes to make a claim under Section 341 of the Income Tax Act, 1952, he may add the unused capital allowances to the loss, making it £1,100. The capital allowances cannot then be carried forward (Section 20, Finance Act, 1954).

If, in this example, the taxpayer was a company and its other income was £800, only £200 of the capital allowances would be used in the claim in 1960/61. A Section 341 claim could then be made in 1961/62 on £300, since the loss, as augmented by capital allowances, in 1960/61 can form the basis of claim in 1961/62 in so far as it was not relieved in 1960/61 (Section 15, Finance Act, 1953). If no such claim was made in 1961/62, the £300 capital allowances would be carried forward with those of 1961/62 to be added to the capital allowances of 1962/63.

A company was taken in this illustration for simplicity. If the taxpayer were an individual with other income of £800, he would not claim the addition of capital allowances, as his personal allowances would reduce his income after deducting the loss of £600 to little or nothing, leaving the full £500 capital allowances to be carried forward.

**Illustration (2)**

| | £ | £ |
|---|---|---|
| 1960/61 assessment .. .. .. .. .. | | 1,000 |
| Capital allowances: | | |
| 1960/61 .. .. .. .. .. .. | 600 | |
| Brought forward .. .. .. .. .. | 1,100 | |
| | | 1,700 |

| | |
|---|---|
| Assessment nil; capital allowances available | 700 |
| Loss, year ended March 31, 1961 .. | 200 |

Since the loss cannot be understated by more than one year's depreciation, only £600 can be added, leaving £100 to be carried forward as capital allowances.

The rule is, therefore, that there can be added to a loss any unused capital allowances up to the amount of the capital allowances of the year of assessment in which the loss occurs.

Capital allowances can be used to turn a profit into a loss.

**Illustration (3)**

| | £ |
|---|---|
| Unused capital allowances .. .. .. .. .. | 600 |
| Profit .. .. .. .. .. .. .. .. | 200 |
| Using the capital allowances this becomes a loss of .. | 400 |

In arriving at the capital allowances to be carried forward, it is only necessary to deduct the amount on which repayment is made (£400), which leaves £200 to carry forward.

This may puzzle some readers, but the propriety of the rule is shown if several years are considered.

**Illustration (4)**

Profits, years to March 31, 1958, £1,000; 1959, £300; 1960, £2,600.

Capital allowances: 1958/59, £1,500; 1959/60, £1,100; 1960/61, £900.

If Section 341 claim not made:

| | £ | £ |
|---|---|---|
| Assessment, 1958/59 .. .. .. .. .. | 1,000 | |
| Capital allowances.. .. .. .. .. | 1,500 | nil |
| Capital allowances carried forward .. | 500 | |
| Assessment, 1959/60 .. .. .. .. .. | 300 | |
| Capital allowances £1,100+£500= .. | 1,600 | nil |
| Capital allowances carried forward .. | 1,300 | |
| Assessment, 1960/61 .. .. .. .. .. | 2,600 | |
| Capital allowances £900+£1,300 .. | 2,200 | |
| | | 400 |
| Tax borne on .. .. .. | | 400 |

If Section 341 claim made:

| | | |
|---|---|---|
| 1958/59 as above .. .. .. .. | | nil |
| Loss (£300—£500)= | 200 | —200 |
| Capital allowances carried forward .. | 300 | |
| 1959/60 as above .. .. .. .. | 300 | |
| Capital allowances £1,100+£300= .. | 1,400 | nil |
| Capital allowances carried forward | 1,100 | |
| 1960/61 as above .. .. .. .. | 2,600 | |
| Capital allowances £900+£1,100= .. | 2,000 | |
| | | 600 |
| Tax borne on .. .. .. | | £400 |

Tax is recovered on £200 in 1958/59, and paid on £600 in 1960/61, so over the three years tax is borne on £400, the same amount as if all the capital allowances had been carried forward in the first place.

Had it been necessary to regard capital allowances of £500 as having been used, the taxpayer would have been worse off by making the claim to turn the profit into a loss.

In the first year of a business care must be taken to stick to principles. In order that there remain sufficient available capital allowances to turn a profit into a loss, it is necessary that the capital allowances exceed twice the profit.

**Illustration (5)**

Business commenced April 6, 1960.

| | £ | |
|---|---|---|
| Profit to April 5, 1961 .. .. .. | 500 | |
| Capital allowances 1960/61 .. .. | 1,200 | nil |
| Capital allowances available .. .. | 700 | |
| Deduct profit .. .. .. .. | 500 | |
| Loss .. .. .. .. | 200 | |

Capital allowances to be carried forward £500 (repayment was on £200 only)

| | £ | £ | |
|---|---|---|---|
| Assessment, 1961/62 .. .. | | 500 | |
| *Less:* Capital allowances brought forward .. .. | 500 | | |
| Capital allowances 1961/62 | 1,100 | | |
| | | 1,600 | nil |
| Capital allowances carried forward .. .. | | 1,100 | |

This £1,100 is available to be added to a loss or to turn a profit into a loss in 1961/62.

If the capital allowances had been less than twice the profit, no capital allowances would be available to create a loss:

| | £ | |
|---|---|---|
| Profit for first year to April 5, 1961 .. | 500 | |
| Capital allowances, 1960/61 .. .. | 1,000 | nil |
| Capital allowances available .. .. | 500 | |
| Deduct profit .. .. .. .. | 500 | |

No loss, as profit is not exceeded by available capital allowances.

# The Institute of Chartered Accountants in England and Wales

## Meetings of the Council

AT SPECIAL AND ordinary meetings of the Council held on Wednesday, July 5, 1961, at the Hall of the Institute, Moorgate Place, London, E.C.2, there were present: Mr. P. F. Granger, President, in the chair; Mr. P. F. Carpenter, Vice-President; Mr. J. F. Allan, Mr. W. L. Barrows, Mr. T. A. Hamilton Baynes, Mr. J. H. Bell, Mr. H. A. Benson, C.B.E., Sir William Carrington, Mr. G. T. E. Chamberlain, Mr. D. A. Clarke, Mr. C. Croxton-Smith, Mr. E. Hay Davison, Mr. W. G. Densem, Mr. S. Dixon, Mr. W. W. Fea, Sir Harold Gillett, Bt., M.C., Mr. J. Godfrey, Mr. G. G. G. Goult, Mr. L. C. Hawkins, Mr. D. V. House, Mr. J. A. Jackson, Mr. H. O. Johnson, Mr. W. H. Lawson, C.B.E., Mr. H. L. Layton, Mr. R. B. Leech, M.B.E., Mr. E. N. Macdonald, D.F.C., Mr. R. McNeil, Mr. J. H. Mann, M.B.E., Mr. R. P. Matthews, Mr. Bertram Nelson, C.B.E., Mr. W. E. Parker, C.B.E., Mr. S. J. Pears, Mr. L. W. Robson, Sir Thomas Robson, M.B.E., Mr. J. D. Russell, Mr. K. G. Shuttleworth, Mr. D. Steele, Mr. C. M. Strachan, O.B.E., Mr. J. E. Talbot, Mr. A. H. Walton, Mr. F. J. Weeks, Mr. M. Wheatley Jones, Mr. E. F. G. Whinney, Mr. J. C. Montgomery Williams, Mr. R. P. Winter, C.B.E., M.C., Mr. E. K. Wright, Sir Richard Yeabsley, C.B.E.

**Luncheon in Honour of Lord De L'Isle**
The Right Hon. The Viscount De L'Isle, V.C., P.C., G.C.M.G., D.L., M.A., F.C.A., Governor-General designate of Australia, was entertained at a luncheon in his honour in the Hall of the Institute on June 27, 1961, by the President, Vice-President and Chairmen of committees of the Council.

**Statements on Auditing:**
**1. General Principles of Auditing**
The Council approved the first of a new series of Statements on Auditing entitled: 1. *General Principles of Auditing*. It will be distributed to members during August, 1961, as a supplement for insertion in the *Members' Handbook*. The Statement has been settled by the Council on the report of the Parliamentary and Law Committee, following consideration of a memorandum submitted by the Taxation and Research Committee and of advice given at consultations with counsel.

**Chairmen and Vice-Chairmen of Committees**
The Secretary reported the appointment of the following Chairmen and Vice-Chairmen of Committees for the ensuing year:

*Applications*
Chairman, Mr. R. P. Winter; Vice-Chairman, Mr. R. McNeil.

*Articled Clerks*
Chairman, Mr. M. Wheatley Jones; Vice-Chairman, Mr. T. A. Hamilton Baynes.

*Consultative Committee of Members in Commerce and Industry*
Chairman, Mr. W. W. Fea; Vice-Chairman, Mr. J. Clayton.

*District Societies*
Chairman, Mr. C. Croxton-Smith; Vice-Chairman, Mr. J. C. Montgomery Williams.

*Finance*
Chairman, Sir Harold Gillett; Vice-Chairman, Mr. D. A. Clarke.

*General Purposes*
Chairman, Mr. W. L. Barrows; Vice-Chairman, Mr. W. H. Lawson.

*Investigation*
Chairman, Mr. D. V. House.

*Overseas Relations*
Chairman, Sir Thomas Robson; Vice-Chairman, Mr. S. J. Pears.

*Parliamentary and Law*
Chairman, Mr. H. A. Benson; Vice-Chairman, Mr. C. M. Strachan.

*Public Relations*
Chairman, Sir Harold Gillett; Vice-Chairman, Mr. E. K. Wright.

**Chartered Accountants Employees Superannuation Scheme (CAESS)**
The Council appointed Mr. G. P. Townend, M.B.E., M.A., F.C.A., to the Committee of Chartered Accountants Employees Superannuation Scheme as an "employers' committeeman" to fill a vacancy caused through the retirement of Mr. E. W. P. Broad, T.D., D.L., F.C.A., and resolved that the thanks of the Council be conveyed to Mr. Broad for his services on the committee since its formation in 1957.

**France**
The Council received a report from Sir Thomas Robson, who had given evidence on behalf of the Institute on June 22, 1961, in Paris before the Pleven Commission on company law in France.

**Articles and Examinations**
The following applications under various bye-laws relating to articles and examinations have been granted or refused during the six months ended June 30, 1961:

| | *Granted* | *Refused* |
|---|---|---|
| *Bye-law 51:* Waiver of p scribed provisions in articles | 1 | 1 |
| *Bye-law 57:* Permission to follow another business or occupation while under articles to the limited extent specified in the application | 10 | 2 |
| *Bye-law 58 (c):* Permission to spend up to six months in an industrial, commercial or other suitable organisation during articled service | 25 | 2 |
| *Bye-law 61:* Reduction in service under articles | 14 | 3 |
| *Bye-law 63 (c):* Reduction in service under articles for former regular officers | 2 | 1 |
| *Bye-law 79:* Exemption from the Preliminary examination by virtue of age and experience in a member's office | 13 | 1 |
| *Bye-law 81:* Permission to sit the Intermediate examination earlier than normally eligible | 2 | 2 |
| *Bye-law 85 (b):* Exemption from the Intermediate examination | 7 | 9 |
| *Bye-law 86 (a):* Permission to sit the Final examination, after completion of articled service, earlier than normally eligible | 5 | 5 |

**Registration of Articles**
The Secretary reported the registration of 97 articles of clerkship during the last month, the total number since January 1, 1961, being 1,138.

**Admissions to Membership**
The following were admitted to membership of the Institute:

HAYDON, DEREK HENRY, A.C.A., *a*1961; 5 Wickham Crescent, West Wickham, Kent.
SCARR, WILLIAM LOWTHER, A.C.A., *a*1961; Wharfedale Hall, Boston Spa, Yorks.

**Fellowship**
The Council acceded to applications from five associates to become fellows under clause 6 of the supplemental Royal Charter.

**Members Commencing to Practise**
The Council received notice that the

following members had commenced to practise:

ANDREWS, NEIL THOMAS, A.C.A., a1957; Willson & Co., Maney House, Birmingham Road, Sutton Coldfield; also at 36 Holifast Road, Sutton Coldfield, N. T. Andrews.

BAXTER, JOHN MICHAEL, A.C.A., a1956; 101 Oldbury Road, Hartshill, Nuneaton.

BELT, JOHN STEWART, A.C.A., a1961; 34 Firs Road, Edwalton, Notts.

BILLINGHAM, GRAHAM JOHN, A.C.A., a1961; Chick, Billingham & Co., 36 Hazelwood Road, Northampton.

BLACKBURN, MICHAEL, A.C.A., a1960; Robinson & Co., Elm House, 4 Elm Hill, Norwich, NOR70K.

BOYD, GEOFFREY BOURKE MONTGOMERY, A.C.A., a1953; Bullimore & Co., 71 The Close, Norwich, NOR16P

BRADMAN, GODFREY MICHAEL, A.C.A., a1961; Godfrey Bradman & Co., 23 Campbell Avenue, Barkingside, Essex.

BUTTERWORTH, BRIAN LYNDON, A.C.A., a1960; B. Lyndon Butterworth & Co., 2 Cherry Close, Dinas Powis, Glam.

CHILVERS, DONALD RICHARD, A.C.A., a1952; Cooper Brothers & Co. and Coopers & Lybrand, Abacus House, 33 Gutter Lane, Cheapside, London, E.C.2, and at Tehran.

COOPER, RICHARD JAMES, A.C.A., a1960; Dunn, Carey & Co. and A. Chester & Co., 12 Buckingham Street, Strand, London, W.C.2, and at Dartford.

CRITCHLEY, RICHARD FRANK VERDUN, A.C.A., a1960; Peplow, Warren & Furler, 6 and 8 Sherborne Road, Newton Abbot.

DOWNS, BARRY, A.C.A., aS1957; B. Downs & Co., 5 Egerton Road, Davenport, Stockport.

FRY, JOHN MORRIS, A.C.A., a1958; 121 Firs Drive, Cranford, Hounslow, Middx.

GIBSON, JOHN BRANTHWAITE, A.C.A., a1958; R. Gibbons & Co., Netherall Chambers, 2 Curzon Street, Maryport, Cumberland, and at Workington.

GILBEY, ALAN, A.C.A., a1961; 59 Cleveleys Road, London, E.5.

GOATE, DAVID ANTHONY, A.C.A., a1960; Larking & Larking, Cornwallis House, Pudding Lane, Maidstone, Kent, and at Ashford, Canterbury, Norwich, Sittingbourne and Winslow.

GOODE, DOUGLAS FRANK, F.C.A., a1929, aS1914; 1 Guessens Walk, Welwyn Garden City.

GOSLING, MICHAEL, A.C.A., a1958; T. C. Prince & Co., Westminster Bank Chambers, 2 Queen's Road, Watford; also at London, Barron & Barron.

HATTON, TERENCE PAIGE, A.C.A., a1959; *W. P. Hatton & Co., National Provincial Bank Chambers, Cross Street, Barnstaple.

HAYTON, ROBERT, A.C.A., a1955; Walton, Watts & Co., Chancery Chambers, 55 Brown Street, Manchester 2.

HELM, STANLEY VINCENT, A.C.A., aS1957; 142A Camberwell Grove, London, S.E.5.

HOING, ROY COOTE, A.C.A., a1958; Heal & Co., 84 The Broadway, Chesham, Bucks.

HOLT, DAVID LYTHGOE, A.C.A., a1955; James Barlow & Son, 23 Acresfield, Bolton.

HOWE, GORDON JAMES, A.C.A., a1954; Broads, Paterson & Co. and *Arthur Young & Co., Moor House, London Wall, London, E.C.2; for other towns see Broads, Paterson & Co., and *Arthur Young & Co.

§HUNSWORTH, FRED SHEARD, F.S.A.A., aS1930; 43 Sandfield Road, Thornton Heath, Surrey.

JENKINS, BRIAN STUART, A.C.A., a1959; Haswell Brothers & Co., St. John's Chambers, Love Street, Chester, and at Wrexham.

JIGGINS, GERALD ARTHUR WILLIAM, A.C.A., a1961; Langley House, 116 Long Acre, London, W.C.2.

KING, DENNIS, A.C.A., a1953; R. L. Marsden & Co., Elder Way, Chesterfield, Derbyshire, and at Alfreton.

KINSLEY, JOHN TERENCE, A.C.A., a1959; *Eacott, Standing & Co., 8 Sheet Street, Windsor.

MIGDALE, PHILIP ROGER, A.C.A., a1960; 35 Abersham Road, Hackney, London, E.8.

MITCHELL, HARRY DAVID, A.C.A., a1956; Bank Chambers, Fish Dock Road, Grimsby.

NORRIS, JOHN ROBERT, A.C.A., a1954; Gerald Edelman & Co., 25 Harley Street, London, W.1.

PAGE, MARTIN LEWIS, A.C.A., a1958; H. P. Gould & Son, 8 Upper King Street, Norwich.

PHILLIPS, DESMOND TUDOR, T.D., F.C.A., a1948; 43 Aldenham Avenue, Radlett, Herts.

PROCTOR, GEORGE, A.C.A., a1958; 187 Harbottle Street, Byker, Newcastle upon Tyne 6.

RAVENSCROFT, JAMES MARTIN EDWARD, F.C.A., aS1938; Larking & Larking, Cornwallis House, Pudding Lane, Maidstone, Kent, and at Ashford, Canterbury, Norwich, Sittingbourne and Winslow.

ROBERTS, MICHAEL ALAN, A.C.A., a1954; R. Gibbons & Co., 37 Murray Road, Workington, Cumberland, and at Maryport.

SAMPSON, ARTHUR THOMAS, F.C.A., aS1949; Robinson & Co., Elm House, 4 Elm Hill, Norwich, NOR70K.

SMITH, ERIC, A.C.A., aS1951; Leech, Evans & Co., Darlaston House, 45 Warwick Road, Coventry, and at London.

SPENCER, BARRY, A.C.A., a1952; 36 Rupert Street, Market Harborough, Leics.

STAGGS, CYRIL RICHARD, A.C.A., aS1956; *Pritchard & Co., 52 St. Mary Street, Cardigan, and at Fishguard; also at Haverfordwest and Milford Haven, *Pritchard, Read & Co.

STERNSCHUSS, HAROLD HAYDN, A.C.A., a1955; H. H. Sternschuss & Co., 146 Woodfield Way, Bounds Green, London, N.11.

STEWART, ROBIN HINTON, M.A., A.C.A., a1957; Blackburns, Robson, Coates & Co., Duchy Chambers, 4 Clarence Street, Manchester 2, and at Bradford, Leeds and London.

TREE, NORMAN, A.C.A., a1961; Tree & Son, 28 Mortimer Street, London, W.1, and at Southend-on-Sea.

WALLER, FRANK ARTHUR, A.C.A., a1953; W. Rowland Waller & Co., 18 Warrior Square, Southend-on-Sea, and at London and Sheerness-on-Sea.

WHEELER, ALAN MORLEY, A.C.A., a1952; Newton & Co., Union Chambers, 63 Temple Row (P.O. Box 1), Birmingham 2.

WISEMAN, JAMES NEVILLE, A.C.A., a1961; N. Wiseman & Son, 19 Queen Street, Blackpool.

**Readmission to Membership**

Subject to payment of the amount required by the Council, one former member of the Institute was readmitted to membership under clause 23 of the supplemental Royal Charter.

**Deaths of Members**

The Council received with regret the Secretary's report of the deaths of the following members:

BALL, EDWIN LEWIS, A.C.A., Rotherham.

BIRCH, JOSEPH HENRY, F.C.A., Scarborough.

BRITTEN, CHARLES DOUGLAS, M.B.E., F.C.A., Manchester.

CALLINGHAM, ROLAND ROBERT, F.C.A., Beaconsfield.

FENNAH, JOHN, F.C.A., Birmingham.

GEREN, JOHN BARRETT, F.C.A., London.

HALL, THOMAS WILKINSON, F.S.A.A., Alderley Edge.

MANVELL, LESLIE SAWARD, F.C.A., Minehead.

MILLICAN, JOHN RUSSELL, F.C.A., Cheltenham.

NORMAN, ALFRED FRANK, F.C.A., Hastings.

PORTER, HERBERT, O.B.E., F.C.A., Folkestone.

REID, ROBERT ARTHUR RUFFER, F.C.A., Johannesburg.

RHODES, STANLEY PERCIVAL, F.C.A., Castleford.

SIMPSON, JOHN WILLIAM, F.C.A., Karachi.

THORNTON, STANLEY, F.C.A., Preston.

WOOD, DENNIS, M.B.E., F.C.A., Gainsborough.

WORMALD, WILLIAM HENRY, F.S.A.A., Northallerton.

*a* indicates the year of admission to the Institute.
*aS* indicates the year of admission to The Society of Incorporated Accountants.
§ Means "incorporated accountant member."
* Against the name of a firm indicates that the firm is not wholly composed of members of one or another of the three Institutes of chartered accountants in Great Britain and Ireland.

## Finding and Decision of the Disciplinary Committee

*Finding and Decision of the Disciplinary Committee of the Council of the Institute appointed pursuant to bye-law 103 of the bye-laws appended to the supplemental Royal Charter of December 21, 1948, at a hearing held on June 7, 1961.*

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that Arthur Pannett, F.C.A., had been guilty of acts or defaults discreditable to a member of the Institute within the meaning of sub-clause (3) of Clause 21 of the supplemental Royal Charter in that he signed the Accountant's Certificate required by Section 1 of the Solicitors Act, 1941, relating to the practice of a solicitor for the accounting period April 1, 1958, to March 31, 1959, which he knew or which he ought to have known was not correct, so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee found that the formal complaint against Arthur Pannett, F.C.A., had been proved and the Committee ordered that Arthur Pannett, F.C.A., of Fountain House, 81-83 Fountain Street, Manchester, 2, be reprimanded.

## Chartered Accountants' Benevolent Association

AT A RECENT meeting of the Executive Committee the chair was taken by Sir William Carrington, F.C.A., and ten members were present.

**Applications for Assistance**

Six new applications for assistance were considered; in three cases a grant was made;

in one case a donation was approved as a temporary measure pending the receipt of further information; and two applications were refused.

**Applications for Further Assistance**
Twenty-four applications for further assistance were considered. In fifteen cases the grant was renewed; in one case it was increased and in eight cases reduced owing to improvement in circumstances.

**Matters Reported**
The Honorary Secretary reported changes in circumstances in twelve cases, and grants were adjusted or donations made in appropriate cases.

The death of one beneficiary, a resident in Crossways Trust Home, Grosvenor House, Brighton, since 1957, was reported.

**W. B. Peat Memorial Scholarship Fund**
Two grants of £30 per annum each for three years were made to assist with school fees.

# Members' Library

MEMBERS OF THE Institute are now invited to apply to the Librarian for the third cumulative supplement to the *Short List of Books*. The supplement, arranged alphabetically under subjects, now extends to twenty-three pages. Copies are still available of the *Short List*, the current edition of which was published in August, 1959. Applications should be accompanied by an addressed label.

*The Librarian reports that among the books and papers acquired by the Institute in recent weeks by purchase and gift are the following:*

Accounts for Management (Distributors/Dealers). (Standard Triumph.) 1961. (Presented.)

Administrative Control and Executive Action; (ed.) by B. C. Lemke and J. D. Edwards. Columbus, Ohio. 1961. (Presented by H. L. Layton, F.C.A.)

Van Boekhouden tot Bedrijfsleer een bundel opstellen . . . aan Prof. Dr. J. G. Ch. Volmer: (ed.) by M. J. H. Cobbenhagen, I. J. Goudriaan and N. J. Polak. Wassenaar. (*c.* 1933.) (Bonset, 23s. 11d.)

Die Buchhaltungs-Systeme und buchhaltungsformen . . .; by F. Hugli. Bern. 1887. (Bonset, 31s. 10d.)

The Clerical Function: a survey of modern clerical systems and methods; by A. A. Murdoch and J. R. Dale. 1961. (Pitman, 30s.)

Divina Proportione: opera a tutti glingegni perspicaci e curiosi necessaria ove ciascun studioso di Philosophia, Prospectiva, Pictura, Sculptura, Architectura . . .; (by Luca Pacioli). 1509. (Marlborough Rare Books, £1,000.)

Economic Conditions in Member Associated Countries of the O.E.E.C.: Italy: 1961. (Organisation for European Economic Co-operation.) Paris. 1961. (O.E.E.C., 3s.)

De Eerste beginselen of de voornaamste Gronden en Regelen van het Italiaansch of Koopmans Boekhouden . . .; by L. Rapmund. (Rotterdam.) 1839. (Bonset, 10s.)

Financial Accounting in New Zealand; by T. K. Cowan. Wellington. 1960. (Sweet & Maxwell (N.Z.), 65s.)

Financing Your Business. (Engineering Industries Association.) 1961. (E.I.A., 5s.)

The Law of Insurance: 2nd edn.; by S. Preston and R. P. Colinvaux. 1961. (Sweet & Maxwell, 70s.)

The Millionaire Mentality; by M. Pearson. 1961. (Secker & Warburg, 16s.)

Practical Points on Leases: a surveyor's experience; by W. A. Leach. 1961. (Sweet & Maxwell, 50s.)

The Problem of Rising Prices; by W. Fellner, M. Gilbert and others. (Paris.) 1961. (O.E.E.C., 21s.)

Programming Business Computers; by D. D. McCracken, H. Weiss and T. Lee. New York. 1959. (John Wiley, 82s.)

Programming for Digital Computers: putting computers to profitable use; by J. F. Davison. 1961. (Business Publications, 35s.)

The Purpose and practice of Motion Study; by Anne G. Shaw: 2nd edn. Manchester. 1952. (Columbia Press, 50s.)

Rathbones of Liverpool 1845–73; by Sheila Marriner. 1961. (Liverpool U.P., 30s.)

The Rent Acts; by R. E. Megarry: 9th edn. by A. Bramall. 1961. (Stevens, 105s.)

Retire into the Sun: a survey of some possibilities in nine paradises; by C. Chisholm. 1961. (Phoenix House, 18s.)

The Services of a Solicitor: the Law Society's guide; by H. J. B. Cockshutt. 1961. (Hodder & Stoughton, 2s. 6d.)

*Spicer and Pegler's Practical Auditing; by E. E. Spicer, F.C.A., and E. C. Pegler, F.C.A.: 13th edn. by W. W. Bigg, F.C.A. 1961. (H.F.L., 27s. 6d.)

Vernieuwd Licht des Koophandels, of Grondig Onderwijs in de Koopmans Rekenkunst; by A. B. Strabbe: (2nd part). by H. G. Witlage. Amsterdam. 1846. (Bonset, 43s. 10d.)

Het Vernieuwde licht des Koophandels; of grondig onderwijs in de Koopmans Rekenkunst . . .; by A. B. Strabbe: 4th edn. by C. Wertz. Amsterdam. 1808. (Bonset, 31s. 10d.)

Work Study on the Farm; by A. A. Pakenham - Walsh. 1961. (Pitman, 12s. 6d.)

* This book has been presented to all District Society Libraries under the grant of books scheme.

# District Societies

## EAST ANGLIAN

*MR. E. A. BLAND*, D.S.O., F.C.A.

*Mr. E. A. Bland,* D.S.O., F.C.A., *a partner in the firm of Bland, Fielden & Co., Chartered Accountants, Colchester, has been elected President of the East Anglian Society of Chartered Accountants.*

*Educated at Uppingham, where he represented the school at cricket and fives, Mr. Bland was articled to his father, the late Mr. C. F. Bland,* D.S.O., F.C.A., *in 1938, but joined the Royal Air Force Volunteer Reserve in September, 1939, was trained as a pilot in Southern Rhodesia, and became Captain of Coastal Command aircraft on anti-submarine operations. In 1943, as a Flight Lieutenant, Mr. Bland received the immediate award of the Distinguished Service Order after an action against a U-boat in which his Liberator was shot down into the Atlantic. Later he was on the Coastal Command Headquarters staff and personal pilot to the Commander-in-Chief.*

*After the war Mr. Bland resumed articles. In 1948 he became both a member of the Institute and a partner in his firm, and was elected to the Committee of the East Anglian Society. In 1958 he was appointed the first Chairman of the newly formed Colchester/Ipswich Branch, holding that office till 1960, when he was elected Vice-Chairman of the East Anglian Society.*

## BRISTOL AND WEST OF ENGLAND

MR. W. E. DEWDNEY, F.C.A., has been elected President. He is a partner in the firms of Hudson Smith, Briggs & Co., Bristol and London, and Stanley Holmes & Co., Bristol. He qualified as a chartered accountant in 1932, having been awarded honours in both Intermediate and Final examinations. He then went to London as a member of the staff of Messrs. Price Waterhouse and Co., and joined his present firms in 1945.

Mr. Dewdney was Honorary County Treasurer of the Bristol Boy Scouts Asso-

ciation for twelve years, and was Secretary of the Queen Victoria Jubilee Convalescent Home until it became part of the Bristol United Hospitals.

**BRADFORD**

A members' luncheon meeting will be held at the Victoria Hotel, Bradford, at 12.45 p.m., on July 28th.

**LEEDS, BRADFORD**

THE LEEDS, BRADFORD and District Society of Chartered Accountants will hold its fourth Residential Course on Management Accounting at the Old Swan Hotel, Harrogate, from the evening of Friday, December 1, to luncheon on Sunday, December 3.

Papers will be given by Mr. W. S. Risk, B.COM., C.A., F.C.W.A., past-President of the Institute of Cost and Works Accountants; Mr. John A. Goldsmith, M.A., F.C.A.; and Mr. John W. Harling, M.A.

A number of places will be reserved for representatives of other District Societies. The Course Secretary is Mr. H. Anderson, F.C.A., 26 Park Row, Leeds, 1.

**LIVERPOOL and MANCHESTER**

A GOLF MATCH between the Liverpool and Manchester Societies of Chartered Accountants at Formby Golf Club, Lancashire, on July 4, resulted in a win for Liverpool by four matches to one.

**MANCHESTER**

THE MANCHESTER SOCIETY of Chartered Accountants defeated the Manchester Lawyers' Golfing Society by 6½ matches to 1½ at the Wilmslow Golf Club, Cheshire, on June 22.

**SHEFFIELD**

THE ANNUAL GENERAL MEETING was held on June 26. The report of the Committee for 1960 was received and adopted.

The following officers were elected: President, Mr. A. G. Thomas, F.C.A.; Vice-President, Mr. C. E. Copley, B.SC., F.C.A.; Secretary, Mr. M. Sheppard, F.C.A.; Treasurer, Mr. R. L. Emmitt, A.C.A.; Hon. Auditor, Mr. A. G. Bedingfield, F.C.A.

Mr. J. M. Beard, Mr. D. K. Gardiner, Mr. R. M. Gray, Mr. L. G. Winfield and Mr. E. E. Vessey were elected as new members of the Committee.

**Annual Report**

The membership at December 31, 1960, was 474, with eleven guest members in addition. The total shows an increase of twenty-three over last year.

The general programme consisted of lectures, visits and a golf match.

Students' classes have again been held on Saturday mornings. The curriculum has been expanded and varied, and during the present session the syllabus is being revised.

Mr. J. A. Brier and Mr. R. S. Sanderson attended a meeting with representatives of the Parker Committee at the Institute to express their personal views on education and training for the accountancy profession as it affects the smaller practitioners.

The Management Accounting Sub-Committee arranged two lecture meetings, which were well attended.

The Taxation and Research Committee considered matters raised by the Institute.

The annual dinner was held on March 2, with a total attendance of 415 members and guests. Luncheon meetings have been held at Sheffield, Chesterfield and Rotherham, and have been well attended. Those in Sheffield are held for the purpose of introducing newly qualified members.

During the year an "ad hoc" Committee on Professional Fees and Employees' Remuneration was set up, in conjunction with the Leeds and Bradford, the Liverpool and Manchester Societies, with exploratory terms of reference. Subsequently, the matter was referred back to the Committees of the four District Societies with a view to enlarging the enquiry, and a more comprehensive survey is at present being undertaken. In due course it is hoped that some statement will be issued to all practising members within the District Societies concerned which will offer some guidance on current conditions in firms of varying size.

Attention is particularly drawn to the existence of the Advice to Members Sub-Committee consisting of the President, the Secretary and Council Member, which is set up for the benefit of all members of the District Society. Information is treated in the strictest confidence.

The Committee congratulates all successful candidates in the examinations. Twenty-three passed the Institute Final, twenty-three the Intermediate and six the Society Final.

*MR. A. G. THOMAS,* F.C.A.

*Mr. A. G. Thomas,* F.C.A., *the newly-elected President of the Sheffield and District Society, was born in 1912 and was educated at King Edward VII School, Sheffield. He served articles in the firm of Camm, Metcalfe & Co., in which his father, Mr. J. B. Thomas,* F.C.A., *was the senior partner. After being admitted to membership of the Institute in 1934 he spent a year in the London office of Peat, Marwick, Mitchell & Co., and then returned to Sheffield as a partner in the firm now known as Camm, Metcalfe, Best & Co.*

*Mr. Thomas has served on the Regional Taxation and Research Committee since 1947, and has represented the District Society on the Taxation and Research Committee of the Institute since 1949. He was Vice-President of the Sheffield Society for 1960/61.*

# Students' Society of London

**News from the Committee**

THE OXFORD WEEK-END course this year will be held at Balliol and Trinity Colleges, from Thursday to Sunday, September 21 to 24. This is one of the most popular and rewarding of the Society's activities. The lectures and discussions include "Practice or Industry", "The Parker Report", "Management Accounting", "The Future Companies Act", and the European Market situation. Applications must be in by July 31.

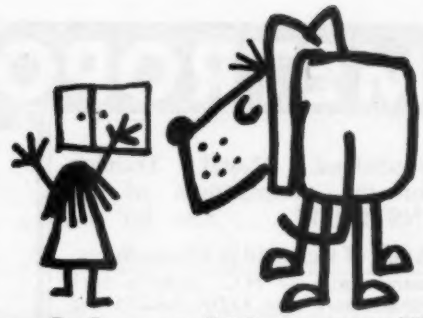
At the annual general meeting it was decided that minutes of Committee meetings should be made available for inspection at the library. The Committee has since voted to make its discussions and decisions public property, and any Committee member is free to discuss them with anyone. It is hoped that this change will create a ripple of interest in the sleepy lagoon of apathy wherein many student members drowse.

The magazine sub-committee hopes that the first issue will be out in October.

The Committee, deciding that the "personal touch" is the best way of creating interest in its activities, has hit on the idea of its members telephoning some six articled clerks each, and informing them of its future activities.

The Committee is still exploring the possibilities of a permanent Students' Society Centre, but in the meantime the social clubs, unofficially supported by most committee members, wish to obtain the use of a club in the West End. This is contingent upon 500 students wishing to join. If you do not know anything about it, find out and join it.

Other activities included the President's "Tea", which was well attended and most enjoyable, thanks to our excellent host, Mr. Parker. Twenty-nine students attended Mr. Hooper's summing up of the mechanised accounting course, and forty-six visited the Royal Mint. No prizes have been awarded this year for the spring session of the Debating Course, as the standard of speaking was poor. The "59 Club" organised a



week-end in Paris. The Kingsway Club held a dinner, and the Taverners their monthly meeting.

The "active" membership of the Society, which includes all members who are not doing their National Service, is now 9,064, which compares well with 7,946 this time last year.

## Incorporated Accountants' Benevolent Fund

THE SIXTY-EIGHTH annual meeting of subscribers of the Incorporated Accountants' Benevolent Fund was held on June 26. In the unavoidable absence of the President of the Fund, Sir Frederick Alban, C.B.E., the chair was occupied by Mr. Edward Baldry, O.B.E.

He announced that unfortunately the merger of the Fund with that of the Chartered Accountants' Benevolent Association had not yet been effected, because further legal difficulties arose after the proposals for the merger had been unanimously approved by the members of the Chartered Accountants' Benevolent Association at its general meeting on May 4, 1960. The matter was, however, now before the Court, and it was hoped that the formalities would be concluded in the very near future.

Mr. Baldry expressed the thanks of the Trustees for the assistance given to the Fund by the Honorary Secretary, Mrs. Duncalf, and by the Institute's Accountant and the members of his staff.

The report and accounts for 1960 were adopted.

Sir Frederick Alban was re-elected President of the Fund, and the Vice-Presidents and the Trustees were re-elected. Mr. James A. Allen was re-elected Honorary Auditor, with a vote of thanks for his services over many years.

A vote of thanks was also given to Mr. Baldry as Chairman.

## Chartered Accountants' Golfing Society

THE CHARTERED ACCOUNTANTS' Golfing Society played its annual match against the Chartered Municipal Treasurers at Berkshire Golf Course on June 28. The teams consisted of four pairs, and eight foursome matches were played. The result was a win for Chartered Accountants by 5 matches to 3.

"Stepney", the oldest engine on the enthusiast-run Bluebell Railway in Sussex. At the extreme left of this view of a crowded platform at Sheffield Park Station is Mr. R. H. McGilvray, A.C.A., of Brighton, one of the operating staff.

## Personal Notes

Mr. John Cockram, F.C.A., has been reappointed a member of the Central Advisory Water Committee of the Ministry of Housing and Local Government.

Messrs. Henry M. Murphy & Co., Dublin, 2, announce that Mr. James A. Strickland, A.C.A., has been admitted to partnership.

Messrs. Price Waterhouse & Co., Chartered Accountants, London, E.C.2, announce the retirement of Mr. Thomas Howorth, F.C.A., who has been a partner since 1932, and the admission to partnership in the London firm of the following members of their staff: Mr. A. M. Inglis, C.A., Mr. D. O. Bailey, F.C.A., Mr. L. W. Shaw, F.C.A., and Mr. A. Wilson, A.C.A. They also announce the formation of an associated firm carrying on practice under the same name from 7 South Parade, Leeds 1, the partners in that firm being the partners in the London firm and Mr. J. O. Hewitt, F.C.A.

Messrs. Geo. Mackenzie & Co., Chartered Accountants, Salisbury, Southern Rhodesia, announce that they have admitted to partnership: Mr. William A. D. Craig, F.C.A., C.A.(S.R.), Mr. Donald F. J. Latham, A.C.A., C.A.(S.R.), Mr. Sidney F. Plew, C.A.(S.R.). Mr. Craig is at the Bulawayo office, Mr. Latham at Sinoia, and Mr. Plew at Gwelo. The firm name remains unchanged.

Messrs. E. Watts & Co., Chartered Accountants, London, S.W.1, announce that Miss E. Watts has retired from the practice. Miss I. E. Thurston has been admitted as a partner and the practice is being continued by Miss Edwards and Miss Thurston. The firm name remains unchanged.

The firms of Messrs. Cook & Co. and Messrs. Neild, Son & Lees, Chartered Accountants, Liverpool and Manchester, announce that they have admitted into partnership Mr. Peter J. C. Bagot, A.C.A., who will practise principally at the Manchester office. The style of the firms remains unchanged.

Messrs. Trent, Raymond & Co., Chartered Accountants, London, S.W.1, announce that they have taken into partnership Mr. Jack Gold, A.C.A., and Mr. Leon P. Marchant, A.C.A. The style of the firm remains unchanged.

Messrs. Hubert Leicester & Co., Chartered Accountants, and Messrs. F. G. Jones & Son, Chartered Accountants, both of Worcester, announce that they have

amalgamated their practices. The combined practice is being carried on at 14 Pierpoint Street, Worcester, under the style of Hubert Leicester & Co., by Mr. Wilfrid L. Solon, F.C.A., Mr. W. Charlton Edwards, F.C.A., and Mr. Allan F. Jones, F.C.A.

Messrs. Thomson McLintock & Co., Glasgow, C.2, announce that Mr. J. Haig Haddow, J.P., C.A., who has been a partner in the firm since 1931, retired on June 30, 1961, and that Mr. J. D. Tebb, C.A., and Mr. M. D. McPhail, C.A., both of whom have been for some years senior members of the staff, have been assumed as partners.

Mr. J. S. Hine, A.C.A., has recently been appointed Chief Accountant of Hoveringham Gravels Ltd., Nottingham.

Messrs. Thornton Baker & Co., Chartered Accountants, and Messrs. Edmonds & Co., Chartered Accountants, announce that they have arranged a merger of their interests.

Messrs. D. E. Abbott & Co., Chartered Accountants, London, S.E.20, and Messrs. D. J. Napley & Co., Chartered Accountants, Croydon, Surrey, announce that they have amalgamated their practices under the style of Abbott, Napley & Co. Offices will be retained at both addresses and also at 177 High Street, Penge, London, S.E.20, and 21 The Glade, Shirley, Croydon, Surrey.

Messrs. Deloitte, Plender, Griffiths & Co. and Messrs. Blackburns, Robson, Coates & Co. announce that the following arrangements have been made with a view ultimately to a complete merger of the two firms: (1) Blackburns, Robson, Coates & Co., of London, Bradford, Leeds and Manchester, are admitting Mr. D. R. Fendick, F.C.A., and Mr. D. D. Rae Smith, M.C., B.A., F.C.A., as partners. Mr. Rae Smith will continue to be a partner in Deloitte, Plender, Griffiths & Co., and Mr. Fendick, who has been for many years the resident partner in the Manchester firm of Deloitte, Plender, Griffiths & Co., is being admitted to their London partnership. Mr. Fendick will continue to be a partner in the Manchester firm. (2) Deloitte, Plender, Griffiths & Co., Manchester, are admitting Mr. R. A. Douglas, B.COM., F.C.A., as a partner. Mr. Douglas continues to be a partner in the firm of Blackburns, Robson, Coates & Co. (3) The Manchester office of Blackburns, Robson, Coates & Co. has moved to 76 Cross Street, Manchester, 2. (4) Deloitte, Plender, Griffiths & Co. have formed an associated firm of the same name to practise from the existing offices of Blackburns, Robson, Coates & Co. at City Chambers, Infirmary Street, Leeds, 1, and Commerce House, Cheapside, Bradford, 1. The partners in the associated firm are Mr. R. T. M. McPhail, M.B.E., C.A., Mr. C. Romer-Lee, M.A., F.C.A., Mr. D. D. Rae Smith, M.C., B.A., F.C.A., Mr. S. P. Wilkins, F.C.A., and Mr. J. N. Prentice, M.B.E., B.A., F.C.A., of the London firm of Deloitte, Plender, Griffiths & Co., and Mr. E. Sugden, F.C.A., Mr. T. Bedford, F.C.A., Mr. T. H. Burdon, F.C.A., Mr. G. E. Bainbridge, T.D., F.C.A., and Mr. P. D. Sugden, M.A., LL.B., A.C.A., who are partners of Blackburns, Robson, Coates & Co. resident in Leeds and Bradford. The latter firm continues to practise as at present.

Messrs. Bottomley & Smith, Chartered Accountants, Keighley, announce the retirement of their senior partner, Mr. W. A. Heaton, after an association with the firm of nearly fifty years. The practice is now carried on by the remaining partners, Mr. Sidney Wilson, F.C.A., and Mr. J. S. Heaton, F.C.A.

Mr. K. M. Townsend, F.C.A., has been appointed a director of the Ashburton Chemical Works Ltd., a member of the Geigy Group of Companies.

Messrs. John Gordon, Harrison, Taylor & Co., Chartered Accountants, Leeds, announce that Mr. Maurice Myers, F.C.A., has retired after forty-five years' association with the firm. The practice is being carried on by the remaining partners under the same name.

Messrs. Harmood Banner, Lewis & Mounsey, Chartered Accountants, have taken into partnership Mr. C. R. Plummer, C.A. Mr. Plummer will be at the London office.

Messrs. Price Waterhouse & Co. (European firms) announce the retirement of Mr. Harold Edwards, F.C.A., and the admission to partnership of the following members of their staff: Mr. D. L. Burns, Mr. C. B. James, Mr. I. N. S. Lathom-Sharp and Mr. F. H. Vogt.

Mr. A. J. Bray, M.A., A.C.A., has been appointed to the Board of Frank H. Ayling Ltd., and also to the Board of its subsidiary, Bribond Printed Circuits Ltd.

Messrs. Geo. Mackenzie & Co., Chartered Accountants (S.A.), have taken into partnership in their Johannesburg office Mr. A. T. Hoernle. The name of the firm is unchanged.

Messrs. Geo. Mackenzie & Co., Chartered Accountants (S.R.), announce that they have admitted to partnership Mr. William A. D. Craig, F.C.A., C.A.(S.R.), Mr. Donald F. J. Latham, A.C.A., C.A.(S.R.), and Mr. Sidney F. Plew, C.A.(S.R.). Mr. Craig is located at Bulawayo office, Mr. Latham at Sinoia, and Mr. Plew at Gwelo. The style of the firm remains unchanged.

Messrs. Fitzpatrick, Graham & Co., Chartered Accountants, announce that Mr. J. M. McGuffie, C.A., and Mr. J. B. Jones, B.COM., A.C.A., who have been members of the staff for some time, have been taken into their Manchester partnership.

Messrs. Howden and Molleson, C.A., Edinburgh, intimate that they have assumed Mr. Ian M. Shaw, C.A., and Mr. W. N. Herbertson, C.A., as partners.

Mr. Aidan L. F. Fuller, F.C.A., has been appointed to the Board of Robert Marriott Ltd., Rushden.

Mr. H. L. Hudson, F.C.A., has been appointed Chief Accountant to Wickman Ltd., Coventry.

## Removal

Messrs. Hughes & Allen, Chartered Accountants, announce that they have removed their offices from 15 Hanover Square, London, W.1, to Kingsway House, 103 Kingsway, London, W.C.2.

## Obituary

**Harold Paton Walters**

WE REGRET TO record the death of Mr. Harold P. Walters, F.C.A., on June 30, in his ninetieth year. All his professional life was spent in the City of London, and up to his retirement in 1952 he was senior partner in the firm of Morrish, Walters & Co., Chartered Accountants, E.C.4. He was educated at University College School and qualified in 1893, becoming a partner in the firm three years later. For fifty-four years he was auditor to the Abbey Road (now Abbey National) Building Society; on his retirement the appointment passed to his son. Mr. Walters held various directorships and was a member of the Conservative and Gresham Clubs.

Mr. Walters was commissioned in the 1914/18 war. As a young man he was a keen Rugby player.

## *APPOINTMENTS VACANT*

*(See also pages xxxiii-xxxvi)*

# *Classified Advertisements*

***Advertisements under "Appointments Vacant", "Practices & Partnerships", "Appointments Required", "Articled Clerks"—eightpence per word. Under "Official Notices", "Miscellaneous" and other headings—one shilling per word. Box numbers—five shillings extra (including the five words in the advertisement). Semi-displayed panels—£4 per column inch. All terms prepaid. Replies to Box Number advertisements should be addressed Box No. . . . c/o Accountancy, Moorgate Place, London, E.C.2, unless otherwise stated. It is requested that the Box Number be also placed at the bottom left-hand corner of the envelope.***

*APPOINTMENTS REGISTER OF THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES*

***Employers who have vacancies for members on their staffs and also members seeking new appointments are invited to make use of the facilities provided by the Institute's Appointments Register. No fees are payable. All enquiries should be addressed to the Appointments Officer, Moorgate Place, London, E.C.2. Tel. Moorgate 5644.***

## *APPOINTMENTS VACANT*

*(See also page 460)*

**H.M. INSPECTOR OF TAXES**
**INLAND REVENUE**

Pensionable posts for Chartered or Certified Accountants (men or women) with at least two years' practical experience since qualifying; also open to 1st or 2nd class honours graduates. Age at least 20½ and under 28 on 1.8.61 (with extension for candidates with regular service in H.M. Forces or H.M. Overseas Civil Service). Salary scale (Inner London) £783–£1,490; starting salary may be above minimum. Prospects of promotion to nearly 1,500 posts with maxima ranging from £2,132 to £5,015. Write Civil Service Commission, Burlington Gardens, London, W.1, quoting 309/61/51. Early application advised.

**UNIVERSITY COLLEGE OF WALES**
**ABERYSTWYTH**
**Appointment of Accountant**

Applications are invited from graduates with accounting qualifications or from qualified accountants for the post of Accountant. Salary within the scale £1,050–£1,850, plus superannuation and family allowance. Applications, with the names of two persons to whom reference may be made, should be sent not later than August 30, 1961, to the undersigned, from whom application forms and further particulars may be obtained.

T. Maelgwyn Davies,
*Registrar.*

**WEST LONDON**
**COLLEGE OF COMMERCE**

**Professional, Commercial and General Education**

Studies at all levels.

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Enrolment from September 11, 1961

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**Kensington, W.8**

*Telephone:* PARk 4550

**ACCOUNTANT**

Qualified Accountant is required for a responsible position at Head Office in the Finance Division of a leading Group of Companies in the heavy engineering industry on the North-East coast.

This is an important appointment offering immediate responsibility and considerable scope for future promotion.

Experience in industry is desirable, preferably with a medium or large industrial organisation with export or overseas interests, but applications will be considered from Accountants in the profession, or from those with equivalent commercial or legal qualifications wishing to make a career in industry. The preferred age is 25–30.

A generous salary will be paid, and an attractive contributory pension scheme and free life assurance scheme are in force. Housing assistance is available in appropriate cases.

Applications, to Box No. 72, c/o Accountancy, will be treated in strict confidence.

**ACCOUNTANT/BOOK-KEEPER.** Bristol Wine Merchants require experienced male aged 30. Good prospects. Administrative ability an advantage. For details write Box No. 74, c/o Accountancy.

**AUDIT CLERKS.** Many vacancies waiting for Senior, Semi-senior or Junior. Call Booth's Agency, 80 Coleman St., Moorgate, E.C.2.

**ACCOUNTANT WITH DRIVE**

A progressive Industrial Company requires the services of a Qualified Accountant who is familiar with costing and accountancy and its practical application. Applicants should have had experience in working for an engineering concern and be able to organise their own department. The Company is concerned in the design, development and production of electronic cabinets, magnetic assemblies, nucleonic equipment and in medium/heavy engineering. A salary of around £1,500 will be paid according to qualifications and experience. The probable age group will be between 30 and 40 years and applicants should apply in the first instance, with full details, to the Group Accountant, Box No. 67, c/o Accountancy.

**ACCOUNTANTS FOR EUROPE**

An International Firm of Accountants is seeking staff for its offices in the main countries of the European Continent, especially France, Germany, Italy and Belgium.

Applicants should be young, preferably single and with a working knowledge of at least one European language. Good salaries will be paid and the prospects are excellent for those who wish to make a professional career on the Continent.

Please write, stating countries in order of preference and giving full particulars to Box 78, c/o Accountancy.

**ASSISTANT**
**INTERNAL AUDITOR**

***Bakelite Limited requires an Accountant as Assistant Internal Auditor***

The work covers all commercial, production and accounting activities. A sound knowledge of Standard Costing is therefore required, as well as a good background of auditing and commercial practice. Experience in cost investigations would be useful. There are good prospects for advancement. The Company has a number of establishments which require to be visited from time to time, but the position is based on Birmingham. Applicants should write giving details of their qualifications and experience to the

**Personnel Manager**
**Bakelite Limited**
**Redfern Road, Tyseley**
**Birmingham 11**

**J. A. STIRLING LTD.**, Civil Engineering Contractors of Welwyn Garden City, desire to appoint a Chief Accountant. The salary will be about £1,500 p.a. according to ability and experience. Experience of Contracting would be an advantage, but not essential. Please apply to the Director in writing, c/o BAGSHAW & Co., Chartered Accountants, 3 St. Helen's Place, London, E.C.3.

**LONDON** Chartered Accountants have vacancy for young Chartered Accountant in responsible position with good prospects of advancement; commencing salary £1,000 to £1,250 according to experience; holiday commitments respected. Box No. 71, c/o ACCOUNTANCY.

**PEAT, MARWICK, MITCHELL & CO.** have vacancies in their London office for young Chartered Accountants who wish to widen their experience in all branches of accountancy. Excellent prospects, good starting salary, pension scheme. Opportunities for service overseas. Applications to 11 Ironmonger Lane, E.C.2.

## Qualified Accountant for France

Required for the subsidiary of a U.K. company, with Head Office in Paris, to take charge of system of standard costing and management accounting for the engineering factory in northern France, making heavy industrial equipment. Applicants must be bilingual in French and English and preferably with accounting experience in France. The initial appointment will be for a period of one year. If the contribution made during that period to the successful management of the company is sufficiently valuable, then consideration will be given to making the appointment a permanent one. Starting salary at a point in the range NF. 20.000 to NF. 24.000 appropriate to age and experience.

Applications, quoting Ref. No. 49/61, to Robson, Morrow & Co., 59 New Cavendish Street, London, W.1, who will disclose the name of their client and further details to suitable applicants.

**QUALIFIED ACCOUNTANT**

required by The Bowater Paper Corporation Limited for its Central Accounting Group in Knightsbridge, London, S.W.1. Preference will be given to recently qualified candidates in the age range 23/28 who have had first class professional experience or been employed in a large commercial organisation.

Apply in writing, giving full details, to The Personnel Officer, THE BOWATER PAPER CORPORATION LIMITED, Bowater House, Knightsbridge, London, S.W.1.

**SEMI-SENIOR AUDIT CLERKS** required by Holborn firm of Chartered Accountants. Good opportunities for all-round experience. Write Box 902, PRATT & Co., 133 Oxford Street, W.1.

**SEMI-SENIOR** required by City firm with expanding practice. Excellent prospects. Salary up to £650 according to experience. Box No. 32, c/o ACCOUNTANCY.

**TANGANYIKA SISAL GROWERS ASSOCIATION** require Chief Accountant/Secretary to be assistant to the Executive Director at Tanga, and responsible for all accountancy duties, personnel management and office management. Accountancy and/or Secretarial qualification desirable. Age 30-35 years. Preferably married. Salary £2,500×£100 to £3,000 p.a. Free passages and married quarters. Provident Fund. Apply Box No. 68, c/o ACCOUNTANCY.

# MODERN MANAGEMENT TECHNIQUES

FORD MOTOR COMPANY LIMITED has made significant progress in developing the most modern techniques to assist management in formulating policy and controlling the Company's operations. Continued expansion has now provided a number of opportunities in the central staffs employing these techniques. The positions to be filled are suitable for men with experience or special interest in any of the following work:

**Industrial Economics**

**Cost Control—Manufacturing or Commercial**

**Office Methods and Machines**

**Financial Planning—Capital Expenditure**

**Financial Planning—New Products**

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Applicants are expected to be competent in their own field and at the same time to possess the personal qualities to merit early promotion to broader responsibilities. Prospects and salary depend entirely on results and there are no restrictions on rate of advancement. The minimum qualification is a good honours degree or an appropriate professional qualification passed at the first attempt. The upper age limit is 40; there is no lower age limit provided the ability and will to succeed are apparent.

Men who can fulfil the strict requirements for these positions are invited to send brief particulars, indicating alternative dates and times at which they can be available for interview at Dagenham, to

**H. G. PEARMAN**
**TRAINING AND RECRUITMENT DEPARTMENT**
**FORD MOTOR COMPANY LIMITED**
**DAGENHAM, ESSEX**

*Please mark envelopes C/109E*

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